AGRICULTURE, RURAL DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1983

HEARINGS

BEFORE A

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AGRICULTURE, RURAL DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1983

THURSDAY, MARCH 25, 1982

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, D.C.

The subcommittee met at 9:45 a.m., in room 1318, Everett McKinley Dirksen Senate Office Building, Hon. Thad Cochran (chairman) presiding.

Present: Senators Cochran, Andrews, Mattingly, and Burdick.

DEPARTMENT OF AGRICULTURE

FARMERS HOME ADMINISTRATION

STATEMENT OF CHARLES W. SHUMAN, ADMINISTRATOR, FARMERS HOME ADMINISTRATION

ACCOMPANIED BY:

- **FRANK W. NAYLOR, JR., UNDER SECRETARY FOR SMALL COMMUNITY AND RURAL DEVELOPMENT, DEPARTMENT OF AGRICULTURE**
- **MICHAEL E. BRUNNER, ASSOCIATE ADMINISTRATOR**
- **CHARLES A. JEWELL, DEPUTY ADMINISTRATOR, FINANCIAL AND ADMINISTRATIVE OPERATIONS**
- **JAMES C. ANDERSON, ACTING DIRECTOR, BUDGET DIVISION**
- **ROBERT SHERMAN, DEPUTY BUDGET OFFICER, DEPARTMENT OF AGRICULTURE**

ACTIVITIES OF FMHA

Senator COCHRAN. The subcommittee will come to order.

This morning, we will be continuing our hearings on the appropriations requests of the Department of Agriculture and related agencies. We will hear from witnesses representing the Farmers Home Administration, the Rural Electrification Administration, and the Office of Rural Development Policy.

The Farmers Home Administration provides credit for rural Americans who are unable to obtain credit from other sources, and it administers several grant programs as well.

The activities of the Farmers Home Administration encompass a diverse range of loan and grant programs which support farming activities, rural housing, and rural community programs. Farmers Home plays a critical role in assisting farmers and rural communities to face both the need for economic development and the mounting pressures to today's economic climate.

The President's budget for fiscal year 1983 includes proposed reductions exceeding $4 billion in Farmers Home Administration lending programs. The majority of these cuts are in the rural housing loan programs. Reductions are also requested in several rural development accounts, such as water and sewer facility loans, industrial development loans, alcohol production facility loans, soil conservation loans, and emergency disaster loans.

Appearing before the subcommittee this morning is Frank W. Naylor, Jr., Under Secretary for Small Community and Rural Development, and Charles W. Shuman, Administrator of the Farmers Home Administration.

PREPARED STATEMENT

We have Mr. Shuman's prepared statement, which we will make a part of the record at this point.

[The statement follows:]

PREPARED STATEMENT OF CHARLES W. SHUMAN
ADMINISTRATOR
FARMERS HOME ADMINISTRATION

Mr. Chairman and members of the Committee, it is a pleasure for me to appear before you today, and to have this opportunity to discuss the fiscal year 1983 budget for the Farmers Home Administration.

The committee has in hand a current version of the agency's brief history, so I will forego additional narrative at this time. Let me point out, however, that as of the end of fiscal year 1981, we had 1.4 million active borrowers carrying a total loan volume of $55 billion of direct and guaranteed loans. This says a lot about where we have been in the recent past. More important is where we are headed in the future. We expect the loan portfolio will exceed $60 billion by the end of this fiscal year.

As we move on into the second year of this Administration we do so with the path clearly charted. The Federal Government will become less and less intrusive in the lives and decisions of individual citizens. It will compete less for resources - especially financial resources - that are needed by people to make their own way. At the same time, it will help remove existing barriers to ensure that the way is open.

In considering the individual's role in this new and challenging direction, one thing is clear: our national economy and well-being will continue to be based in large part on agriculture and rural resources. Indeed, the world's well-being rests to an ever-increasing degree on the success and productivity of American agriculture.

In the Farmers Home Administration, we are concerned with a number of programs that provide rural credit. Yet we fully recognize the need for these credit programs to be considered in light of this Administration's redefined national agenda along with the needs of farm families and the communities in which they live.

We in Farmers Home share with farmers themselves the belief that the priority consideration of adequate income from farming, unhindered by burdensome governmental interference, is the number one goal of the Department of Agriculture.

Close on the heels of this top goal follows the need for USDA and the Administration to assure consumers that they will continue to have an abundant supply of high quality food and fiber from the farms of our nation, at prices they can afford to pay.

Our role in Farmers Home is to provide credit to farmers and other rural residents who are unable to obtain sufficient financing at rates they can afford, to help them begin and maintain a productive career. Our responsibility includes, first and foremost, realistic credit counseling and servicing. We are placing greater emphasis on this basic mission of the Agency. The recent reassessment of our county and district office structure was completed with the objective of providing greater assistance to our county office staff. We will continue to make and service group-type loans at the district level, thus allowing the county staff to concentrate their efforts on individual loan programs. We are requiring the District Directors to utilize at least 50 percent of their time for county office supervision. We believe these efforts will provide greater service to our borrowers.

Mr. Chairman, for fiscal year 1983, we are requesting a total of almost $5.8 billion for all of Farmers Home's programs. This is somewhat less than you approved for the current year and envisions the termination of several of the smaller, limited-purpose programs that have largely fulfilled their purposes.

This budget emphasizes the role that the Federal Government can best play in meeting the two goals just mentioned. And that is by providing essential credit to farmers who cannot obtain financing through conventional financial institutions, to farmers who can contribute materially to our national well-being -- while making a productive living.

Mr. Chairman, I will now turn to the specific requests by program in the budget for 1983, as presented by President Reagan in his budget message of February 8.

FARMER PROGRAMS

The 1983 Budget proposes a generally trimmer Farmers Home Administration program of assistance. However, the mainline programs needed to provide a backup source of credit to farm producers who cannot obtain credit elsewhere remain strong. This includes the resources to allow young and beginning farmers to establish the farming operations and, through counseling available in the programs, to build them into strong viable operations.

The overall Federal loan program dollar level needed to achieve these objectives in 1983 will be reduced somewhat through the institution of an expanded nation-wide crop insurance program which will be available over a substantially wider range of farm acreage and increased participation of the private credit market through improved loan graduation review and subordination of FmHA held security.

Agricultural Credit Insurance Fund

Farmer programs are funded through the Agricultural Credit Insurance fund. The 1983 Budget requests loan authorizations of $3.9 billion.

Farm Operating Loans

The farm operating loan level is estimated at about $1.4 billion for 1982 and over $1.5 billion for 1983. This is a substantial increase in program level over the last several years. The increase is requested to meet the real demand for operating credit which in the last few years has only been met through the heavy emergency disaster loan program and the economic emergency loan program. Legislative authority to extend the economic emergency program was granted by P.L. 97-98. However, we feel that adjustment of the basic farm operating loan program level to a more realistic level may substantially alleviate the "crises" planning cycle of the past few years and can provide for a more stable and reliable farm sector output in the next decade. Farm operating loans would be the primary source of FmHA credit for meeting annual operating expenses. These loans could also be used for the purchase of livestock, farm supplies and equipment, refinancing indebtedness and miscellaneous expenses such as complying with certain safety standards.

In 1983, $50 million is requested for guaranteed farm operating loans, the same level as in 1982, and $1.46 billion is requested for insured farm operating loans. This is an increase of $135 million over the 1982 level. In 1983 we will continue our efforts to provide credit primarily to those most in need. This will enable us to extend a reasonable level of credit to the smallest family farms as well as young and beginning farmers. More effective graduation reviews will be conducted and counseling and servicing of borrowers will be improved with the aim of helping the borrowers move to normal private sources of credit as their farm operations develop.

The Budget also reflects proposed legislative action to curtail the interest subsidies on operating loans to limited resource borrowers. All borrowers would be charged interest at a rate equivalent to the cost of money. The interest rate for guaranteed loans is negotiated by the lender and the borrower. These guaranteed loans are aimed at further facilitating the involvement of the private sector.

Farm Real Estate Loans

The appropriation level for farm real estate loans is $904.6 million for 1982. For 1983, $818 million is requested. The primary insured farm real estate loan program is the farm ownership loan program for which $700 million is requested for 1983, the same level as in 1982, $75 million is requested for guaranteed loans in 1983. We believe this funding level will be adequate to meet the needs of those applicants most in need of Federal support to establish viable operations in today's agricultural market climate. Several small programs, primarily to groups and associations, are proposed for termination to consolidate and streamline the Agency's farm lending and place further emphasis on those programs directed toward the individual farmer. Emphasis will be placed on the quality of the proposed loans with an eye to the rapid development of borrowers into strong and viable agricultural producers.

All borrowers will be charged not more than the cost of money interest rate for insured loans and the interest rate on guaranteed loans will be negotiated between the borrower and lender. As in the farm operating loan program, legislation is being proposed to curtail the interest subsidies on farm ownership loans to limited resource borrowers.

The Budget proposes $31 million for individual soil and water loans, and $12 million for Indian tribe land acquistions loans.

Emergency Disaster Loans

More than $14.8 billion has been loaned in the emergency disaster program since 1977. A program level of $1.6 billion is reflected in the Budget for 1982 and $1.54 billion for 1983. This reflects Congress' and the Department's effort to continue improving this program. Several improvements have been made in the program during the last year.

Replenishment of Agricultural Credit Insurance Fund

An appropriation of $682 million is requested to reimburse the Agricultural Credit Insurance Fund for interest subsidies and losses incurred through fiscal year 1981. The principal element of this reimbursement is the amount by which the interest expenses paid by the Agency exceeded interest income accruing from our outstanding loans. Many of our outstanding loans made from this Fund accrue interest at rates in effect since 1954, rates which are substantially below last year's cost of money.

COMMUNITY PROGRAMS

Community programs provide residents in rural communities with basic amenities, alleviate health hazards, improve the quality of rural living, and contribute to their orderly economic and social development. Loans for these purposes are funded through the Rural Development Insurance Fund.

Rural Development Insurance Fund

The 1983 Budget request for insured community facilities loans under the Rural Development Insurance Fund is $130 million, the same as in 1982. The request for water and waste disposal system loans is $300 million.

Community Facility Loans

Loans are currently made to public bodies and nonprofit corporations in rural areas including cities and towns of not more than 20,000 population. These loans finance projects involving fire, rescue, and public safety; health and medical care facilities; public buildings; hydroelectric generation facilities;

and cultural and educational facilities. We are requesting $130 million for community facility loans.

The Omnibus Reconciliation Act of 1981, Public Law 97-57, adjusted the interest rate charged borrowers in this program from its previous statutory level of 5 percent to a rate which would reflect the municipal bond market for bonds of similar terms. However, low-income communities who need the loans to meet health or sanitary standards can continue to receive the reduced interest rate.

Water and Waste Disposal Loans

For water and waste disposal system loans, we are requesting $300 million. New interest rates were set in this program similar to the community facility loan program by the Omnibus Reconciliation Act of 1981. In order to make maximum use of these funds, priority consideration will be given to those projects most in need, which will enlarge, extend or otherwise modify existing facilities to provide service to additional rural residents.

Business and Industrial Loans and Alcohol Production Facility Loans

We propose termination of the guaranteed business and industrial loan program and the guaranteed alcohol production facility loan program. Termination of those programs is consistent with the plan to return FmHA to its original role of lender of last resort in the areas of farm credit, housing and certain community projects.

Replenishment of Rural Development Insurance Fund

An appropriation of $336 million is requested to reimburse the Rural Development Insurance Fund for interest subsidies and losses incurred through fiscal year 1981.

Other Community Programs

We are requesting $120 million for water and waste disposal system grants to complement the loan program in 1983. This is about the same level as is available for 1982.

HOUSING PROGRAMS

Our rural housing programs are financed mainly by the Rural Housing Insurance Fund. The 1983 loan authorization request is for $1.145 billion. Almost all of these funds are available for subsidized interest loans to low-income borrowers. This moderate program request is consistent with the President's Economic Recovery Plan in which we must reduce the impact of Federal borrowing and its effects on inflation and the availability of capital resources in the economy.

In 1983, the Farmers Home Administration housing programs will continue to provide housing assistance to families with the greatest need. We will continue to emphasize the purchase of existing housing and the rehabilitation and repair of existing units when such housing is available and reasonably priced.

To ensure that loans can be made available in more cases of real need, the Agency has adopted a regional standard for "low-income" in place of one national standard. We expect this to materially improve the administration of the program.

Section 504 Housing Repair Program

The request for loan authorizations for Section 504 home repair loans for 1983 is $24 million, the same level as in 1982. We have also requested $12.5 million for very low-income housing repair grants. Loans and grants are made to finance essential improvements to the dwellings of very low-income elderly families to make them safe and sanitary and to remove health hazards.

Rural Rental Assistance

The 1983 Budget provides support for 17,560 units in our rural rental assistance program. This is 3,280 units more than the number of units approved in 1982. The total cost of the 17,560 unit program level for rental assistance is estimated to be $185 million over the life of the assistance agreements. During 1982 and 1983, the assistance agreements will be used primarily to extend the life of expiring units and to fill out rental projects which require additional assisted units in order to become economically viable.

The Rental Assistance Program is currently funded from the Rural Housing Insurance Fund. The 1983 Budget proposes a separate fund for this activity so that its costs can be more adequately identified.

Replenishment of the Rural Housing Insurance Fund

An appropriation of $1.1 billion is requested to reimburse the Rural Housing Insurance Fund for interest subsidies and losses incurred through fiscal year 1981 and not previously reimbursed. The principal element of this reimbursement is the amount by which interest paid by the Agency exceeded interest income accruing from our housing borrowers.

Other Rural Housing Programs

The Budget also includes an appropriation request of $12.5 million for rural housing for domestic farm labor grants. These grants are used to reduce rental rates to a level that low-income farmworkers can afford.

The 1983 Budget also proposes to set up the construction defects compensation program as a separate appropriation in order to more adequately identify the costs of this program. For 1983, $2 million is requested, the same level as authorized for these purposes for 1982 through the Rural Housing Insurance Fund.

SALARIES AND EXPENSES

The 1983 appropriation request for salaries and expenses is $294 million. This is about $20 million above the adjusted appropriation estimated for 1982. The 1983 request includes $6,633,000 for increased operating costs to continue FmHA programs and provide credit counseling, loan servicing and debt collection for an ever increasing loan portfolio.

An increase of $9,955,000 is also requested for the portion of pay increases absorbed in 1982, but required in 1983 to carry out the programs.

We are also requesting an increase of $933,000 for travel expenses in Field Offices to aid in the servicing of the rapidly expanding loan portfolio. The additional funds will allow our field staff to improve the borrower counseling activities which are needed to assure the success of the farm operation and to more adequately secure the interests of the Government. In addition, the Budget proposes an increase of $582,000 to provide field training in the basic skills of loan making and servicing, and $560,000 to increase the compensation of County Committees who are essential in our farm loan programs. They have been paid only $12 per day since 1976. We propose to increase this rate to $21 per day which we feel would more adequately compensate the Committee members for serving in this key capacity.

In order to provide more timely and adequate computer support for our loan and grant activities, the Budget includes a request for $550,000 for automatic data processing equipment. We are hopeful that an expeditious conversion to more modern computer equipment will assist the field personnel in their servicing and counseling efforts.

Finally, an increase of $450,000 is requested to establish a long-term cost projection system to better assess the financial implications of the revolving fund loan programs. This system would answer the need pointed up by the General Accounting Office and the requirements set up in the Consolidated Farm and Rural Development Act Amendments of 1980.

Mr. Chairman, this concludes my prepared testimony. As stated earlier, I have a brief history of FmHA complete with charts and statistics which may be helpful to insert in the record. I appreciate the opportunity to discuss the performance of FmHA in meeting the needs of farmers and other rural Americans. Thank you very much.

A BRIEF HISTORY OF FARMERS' HOME ADMINISTRATION

Farmers Home Administration (FmHA) is the credit agency for agriculture and rural development in the United States Department of Agriculture. Its history of financial and technical assistance in rural America goes back 46 years. FmHA continues the mission of its predecessors in rural assistance, the Resettlement Administration and the Farm Security Administration.

Today, the agency serves a broader purpose than the 1930's singular effort to make loans to Depression-stricken farm families. As recently as 1960, FmHA was primarily concerned with its supervised credit program for low-income farmers.

FmHA continues to be a source of credit for building stronger family farms; in 1981, farm credit accounted for well over one-half of all resources administered by FmHA. Congress, during the 1960's and 1970's, added additional programs that benefit families and communities throughout the rural population, helping to provide safe, modest housing; modern, sanitary water and sewer systems; essential community facilities; and job/economy-boosting business and industry in rural areas.

In 1977, the Rural Development Service was merged into the Farmers Home Administration, giving the agency a rural development policy management capability. Later the agency was given significant new responsibilities to help implement the Small Community and Rural Development Policy Act of 1980. FmHA directed its resources to high-priority rural problems such as housing, health, transportation, water systems, communications, energy and economic development. Wherever possible, FmHA coordinated programs and funding with other Federal, State, and local agencies. In 1981, a separate Office of Rural Development Policy was established, which answers directly to the Under Secretary of Agriculture for Small Community and Rural Development.

A major advantage to rural people is the localized delivery system developed over the years by FmHA. Approximately 8,500 permanent full-time employees direct FmHA resources from 46 State offices, 298 district offices and more than 1,950 county offices serving every county or parish in the 50 States plus the Pacific Trust Territory, American Samoa, Guam, Puerto Rico, and the Virgin Islands. FmHA's close one-on-one relationship with its borrowers is unique in the Federal Government.

FmHA's existing system of personal contact across the country has established it as the "lead" agency for rural development. Congress and the Administration continually recognize FmHA's long experience in serving rural communities and farm families and have over the years expanded old and created new services.

FmHA loans and grants supplement the amount of credit and capital directly available from commercial lenders in rural areas. In most programs, the agency makes loans to qualified applicants who can find no other sources of financing available on terms or conditions they can meet.

The money loaned by FmHA comes from collections on previous loans, or from private investors through sale of Government securities. In guaranteed loan making, funds are supplied directly to borrowers by commercial lenders, with FmHA minimizing the lender's risk.

Grants for rural water and waste disposal systems, farm labor housing, home repair for low-income elderly, and "self-help" homebuilding by low-income families supplement the agency's rural lending program.

RESETTLEMENT ADMINISTRATION

The lineage of FmHA goes back to the Resettlement Administration, which was established as an independent agency in 1935 and formally assigned to the Department of Agriculture in January 1937.

The programs of the Resettlement Administration offered a number of approaches to solving the problems of poor people and poor land. The most popular was the supervised loan program. Supervised loans were part of a Governmentwide effort to help needy rural people re-establish themselves on a self-supporting basis.

During its 2-year operation, the Resettlement Administration made more than 300,000 short-term loans, often supplemented by grants to low-income families. Each loan was based on a farm and home management plan worked out by county, farm, and home supervisors in cooperation with the borrowing family. The plans were designed to ensure the use of good farming practices and to fit the needs of the families taking part in the program.

By 1937, there was a growing conviction in USDA and in Congress that supervised credit as pioneered by the Resettlement Administration was the answer to a worsening national problem of hardship and failures among tenant farmers. On July 22, 1937, the Bankhead-Jones Farm Tenant Act was passed.

The Resettlement Administration was given the responsibility for the new program of supervised farm ownership loans with 40-year terms for farmers who lacked other sources of credit for buying their own land and for farm and home improvement.

Also enacted in 1937 was the Water Facilities Act to provide loans for individual and association farm water systems in 17 western States where drought and water shortage were familiar hardships. The Resettlement Administration shared servicing responsibilities of the program with the Soil Conservation Service and the Bureau of Agricultural Economics. This act was the forerunner of the rural water programs now administered by FmHA.

FARM SECURITY ADMINISTRATION

As administrative actions were taken to carry out the Farm Tenant Act, on September 1, 1937, the Resettlement Administration was renamed the Farm Security Administration (FSA).

For the ensuing 9 years, FSA carried on supervised credit programs with farm and home counseling by county office staff. The success of a large percentage of these borrowers helped strengthen family farm agriculture and helped the Nation meet its awesome food-producing challenges in World War II. By 1941, the FSA had made more than 13,000 loans to tenant families for the purchase of farms.

In 1942, FSA was given full responsibility for the water facilities program in the 17 western States.

FARMERS HOME ADMINISTRATION

By 1946, it was generally conceded both in and out of Congress and within the agency itself that a restructuring of FSA was necessary, that some old Resettlement programs were no longer justified; others could be improved and new programs would be needed in the postwar period.

Accordingly, in August 1946, Congress passed the Farmers Home Administration Act. This measure, which took effect in 1947, reconstituted FSA under the new name Farmers Home Administration.

Until 1974, Farmers Home Administration was commonly referred to as "FHA," and often confused with other agencies with the same initials, including the Federal Housing Administration and Federal Highway Administration. In April 1974, USDA formally adopted "FmHA" as the agency's distinguishing acronym.

Combined in the new FmHA were some programs of FSA and the emergency crop and feed loan program. The latter, a service in short-term loans (for feed, seed, and fertilizer) to farmers in designated hardship areas, had been originated through USDA in 1918, and carried on during 1933-46 through Production Credit Associations of the Farm Credit Administration's agricultural credit system.

The Farmers Home Administration Act also gave FmHA new authority to insure loans made by banks, otner agencies, and private individuals, as well as to make direct Government loans. The act brought an end to rural rehabilitation loans, of which over 3 million had been made since 1935 by the Resettlement and Farm Security Administrations. They totaled over $1 billion.

In its first 3 years, FmHA confined its operations to development of supervised farm ownership and farm operating loan programs, and to water facilities projects in the 17 western States.

EXPANSION OF FmHA SERVICES

The first of many additions to FmHA's portfolio of services, all made available to rural people through the well-established system of FmHA county offices, came in 1949. These are highlights of the Congressional acts (1949 through 1981) that have molded FmHA's wide variety of services.

The Federal Housing Act of 1949 gave FmHA authority to make housing loans to farmers as a part of the national housing program. The Disaster Loan Act of 1949 originated the special emergency farm loan for recovery from losses inflicted by natural disaster.

The Water Facilities Act was amended in 1954 to apply nationwide, rather than limited to the 17 western States, and to let farm area water systems take on nonfarm customers in rural communities.

Rural development was given Federal program status by USDA administrative action in 1955. FmHA's first involvement was a pilot program of loans to small farmers who could not qualify for regular FmHA loans.

In 1959, FmHA began to make loans to local organizations covering the local share of cost in small watershed projects under Public Law 566.

Major overhauling and expansion of FmHA authorities came with passage of the Consolidated Farmers Home Administration Act of 1961. Its principal provisions were the following:

* Raised limits on farmer loans to $60,000 for farm ownership, replacing a formula whereby each county's limit had been the average value of its family farms and from $20,000 to $35,000 for farm operating purposes.

* Opened up the water system program to general rural population, including incorporated towns of up to 2,500. The loan limit on a project (previously $250,000) was raised to $500,000 for a direct FmHA loan and to $1 million for an insured loan.

Also in 1961, the Federal Housing Act was amended to make nonfarm rural residents eligible for FmHA's direct housing loans. This new jurisdiction in rural housing extended to towns of up to 2,500 population.

Still more expansion of FmHA services came in 1962. The Senior Citizens Housing Act set up loans for low-rent apartment projects designed to meet the needs of people age 62 and over. This type housing was acutely lacking in rural communities.

Amendments to the Farmers Home Administration Act authorized loans for a shift in land use to outdoor recreational facilities built primarily to benefit rural people. The agency began to make loans to family farmers to set up farm-based recreation and other nonagricultural enterprises that would add to family income, and for association grazing ranges where family farmers and ranchers share the use of more grazing land for livestock production.

A pilot program for rural renewal, delegated to FmHA, launched experiments in several States to develop better community facilities, improve homesites and housing, and to attract new industry to underdeveloped rural areas. Rural renewal was discontinued as an experimental program in 1969.

FmHA also was authorized in 1962 to make loans covering local project costs in areas designated for benefits of a resource, conservation, and development program which, like the small watershed program, is supervised by USDA's Soil Conservation Service.

The Economic Opportunity Act of 1964 established loans to low-income rural people for small farm improvements or nonfarm enterprises that would add to family income. FmHA performed the lending through its county offices with funds provided by the Office of Economic Opportunity until 1971. The agency made nearly 65,000 loans totaling $109.3 million to individuals and 1,476 loans totaling $21 million to cooperatives.

EXPANSION OF PROGRAMS TO PRESENT LEVELS

The expansion of old programs and enactment of new ones during the first 4 years of the 1960's raised FmHA's total loan and grant volume from the $300 million level of fiscal year 1960 to $750 million in fiscal year 1965.

Rural housing was changed from a program of direct loans to one primarily of insured loans, and the population limit on towns served through FmHA was raised from 2,500 to 5,500. This opened the way for the greatly increased housing services for rural people.

In 1966, senior citizens and younger low-income families became eligible for FmHA rural housing loans or tenancy in rural rental housing.

In 1968, an overhauling of the Housing Act of 1949 established the interest-supplement housing loan program. It enabled some low-income families to pay as little as 1 percent interest and provided for subsidized loans to developers of low-priced rental housing for low-income families and senior citizens. New programs also were enacted in 1968 for rural homesite development loans and for grants toward support of "self-help" homebuilding group projects. Grants of up to 90 percent, as well as loans, were authorized for farm labor housing projects.

The Housing Act of 1970 raised the population limit to 10,000 for a rural community where FmHA housing loans may be made.

In 1965, the water facilities loan program was transformed into a loan-and-grant program for both water and waste disposal systems.

Rural towns of up to 5,500 were made eligible to be included in FmHA-financed projects, and the limit on FmHA financing of a project was raised to $4 million.

In 1968, Congress abolished a statutory annual ceiling of $450 million on FmHA insured loan authority for farm ownership and community facilities combined, and raised the national total authorization for water-waste disposal grants from $50 million to $100 million a year. In 1970, legislation was passed to remove technical barriers to the use of investors' FmHA-insured funds, rather than direct appropriated funds, for loans to tax-exempt public bodies such as municipalities and public service districts. That year marked the beginning of a period of rapid growth and increased service to small towns.

In farm credit programs, the agency took action in 1970 to increase its cooperation with other lenders in jointly serving farm borrowers, with FmHA taking a second lien when the same security is mortgaged both for the FmHA and other lenders' loans. In 1971, the limit on a farm ownership loan secured by a mortgage on real estate was raised from $60,000 to $100,000.

The Rural Development Act of 1972, enacted August 20, 1972, gave USDA primary responsibility for Federal activities in support of rural development. It established the position of Assistant Secretary for Rural Development to coordinate this effort through the programs and expertise of FmHA, Rural Electrification Administration (REA), and the Rural Development Service (RDS). In 1977, RDS was merged with FmHA and in 1981 it was elevated to the Office of Rural Development Policy.

In its other principal provisions affecting FmHA, the act--

* Authorized FmHA to guarantee loans made by commercial lenders for farming, housing, and rural business and industry, including enterprises in cities of up to 50,000 population.

* Abolished the limit of $4 million per project on FmHA financing of water and waste disposal systems, increased the national grant authorization for water and waste disposal to $300 million a year, and raised the population limit on towns included in FmHA-financed systems to 10,000.

* Authorized FmHA loans for other kinds of essential community facilities such as fire departments, community halls, hospitals, nursing homes, and public recreation facilities.

* Authorized FmHA grants to improve rural industrial sites.

* Authorized area assistance planning grants.

* Authorized FmHA to make investor-funded insured loans for farm operating purposes, and raised the limit on a farm operating loan from $35,000 to $50,000.

- * Authorized youth loans to rural young people under age 21 for farm or nonfarm income-producing enterprises supervised through schools or organizations, such as in 4-H Club and Future Farmers of America programs.

- * Set $225,000 as the maximum permissible debt against farm property on which FmHA and a cooperating lender may simultaneously hold liens. This enabled FmHA to participate in larger loans up to its limit of $100,000 to family farmers and ranchers.

The emergency loan program to help farmers recover from natural disaster underwent a short-lived expansion in 1972. An act of Congress, stimulated by the Hurricane Agnes disaster in northeastern States, liberalized emergency loan terms nationwide and decreed nonrepayment of the first $5,000 to cover actual loss. After the cost mounted to about $550 million within a few months, the program was suspended and Congress in 1973 returned emergency loans to a fully repayable basis. Legislation in 1975 established separate categories of disaster emergency loans to cover losses and to finance resumption of farm production operations. Under the Small Business Development Act of 1980, FmHA was given authority to make unsubsidized emergency loans to farmers who are able to get credit from commercial lenders. The law limits loans to these creditworthy borrowers for actual loss only.

A special Emergency Livestock Credit Act for FmHA guarantee of commercial lenders' loans to livestock and poultry producers in financial distress was enacted July 25, 1974. The program expired September 30, 1979. Under terms of the program, FmHA guaranteed a maximum 350,000 dollars worth of commercial credit for an eligible borrower. Loan guarantees totaling $1.5 billion of principal outstanding were authorized. About $1 billion of this credit was used by farmers and lenders.

Under amendment of the National Housing Act, passed in 1974, FmHA in 1976 introduced its housing loans into towns of 10,000 to 20,000 population that are outside Standard Metropolitan Statistical Areas (SMSA's) and certified by the Secretaries of Agriculture and Housing & Urban Development (HUD) to be lacking in mortgage money from other sources. Later in 1976, Congress revised the criteria for serving the larger non-SMSA communities by specifying that consideration be based on shortage of mortgage loan funds for families of low and moderate income. Housing Act amendments of 1974 also authorized extension of FmHA housing loan services to U.S. island territories, including trust territories in the Pacific (service was initiated on Guam in 1976 and other islands in 1977), and eventual lending on mobile homes and condominium housing (not implemented as of 1981).

The guarantee of commercial lenders' housing loans to families of moderate income was implemented in January 1977 under authorities provided in the Housing and Rural Development Acts. However, under the Housing Act Amendment of 1977, guarantee of housing loans was limited to the service of families with above moderate income. In 1977, FmHA also implemented grants to senior citizens with very low income for repair of badly deficient houses, and an authority under housing legislation of 1974 to provide rental assistance supplementing rent paid by low-income tenants of FmHA-financed rental housing.

The Agricultural Credit Act, enacted August 4, 1978, substantially changed the farm programs of FmHA and added a new program of economic emergency loans. The new program authorized FmHA to make or guarantee loans of up to $400,000 to farmers or ranchers hard pressed by shortages of credit from regular sources or by a cost-price squeeze. The agency is authorized to carry a maximum of $6 billion in economic emergency loans at any one time. The loans can be used to refinance certain outstanding debts, reorganize the farming operation, and pay other operating expenses. However, funds can not be used to expand farming operations. Although the 1978 Act set May 15, 1980, as a date of expiration for the economic emergency loan program, the Agriculture and Food Act of 1981 extended authority for the program until September 30, 1982.

The 1978 Agriculture Credit Act also made changes in existing programs --

* Expanded eligibility for farm loans to family corporations, cooperatives, and partnerships, as well as individuals.

* Increased loan limits to $200,000 for insured and $300,000 for guaranteed farm real estate loans and to $100,000 for insured and $200,000 for guaranteed farm operating loans.

* The interest rate for farm ownership loans was changed to be based on cost of borrowing to the Government. Special interest rates on ownership and operating loans were made available for limited-resource farmers.

* The interest rate for actual losses under disaster emergency loans also was set at 5 percent.

* The maximum allowable grant for water and waste disposal projects was increased from 50 percent to 75 percent.

* Revoked the requirement that the Department of Labor clear business and industrial loans less than $1 million and when employment is less than 50 people.

The Powerplant and Industrial Fuel Use Act of 1978 (Section 601) provided energy impact assistance grants--sometimes called the "boomtown" program--to rural communities which faced problems of rapid growth due to new coal and uranium mining. Grants were available for planning as well as acquiring and developing sites for housing and public facilities. "Energy impacted areas" were designated by State governors and approved by the U.S. Department of Energy. By the end of 1981, approximately 275 grants had been awarded to communities within the designated 24 States. The program was not funded in the 1982 budget.

The Rural Development Policy Act of 1980 gave USDA a leadership role in coordinating a nationwide rural development program. Among other provisions, it created the position of Under Secretary of Agriculture for Small Community and Rural Development and increased FmHA's annual authorization for section 111 planning grants. The planning grants under section 111 had been authorized by the Rural Development Act of 1972. The grants were made to States, substate districts, local governments, and certain community-based organizations to encourage and help meet the cost of comprehensive planning in rural areas. Grants were used for planning a wide variety of services including water, sewer, housing, energy, and economic development. Through fiscal year 1981, the Federal Government funded 603 grants for a total of $19 million. The program was not included in the 1982 budget.

The Energy Security Act of 1980 was a $20 billion comprehensive synthetic fuel measure designed to spur the production of 500,000 barrels of synfuels daily by 1987 and two million barrels by 1992. Small-scale projects (less than 1 million gallons per year) with a loan amount of less than $1 million, and intermediate projects (over 1 million and less than 15 million gallons) became eligible for FmHA financing.

The Omnibus Budget Reconciliation Act of 1981, enacted on August 13, 1981, directed FmHA to select water, sewer, and community facility projects based on the percentage of low-income population to be served, severity of the threat to health, and size of the community. Priority was to go to the smallest communities.

AN UNDUPLICATED RURAL RESOURCE

FmHA programs operate as a supplement to credit made available by private lenders, not in competition with them, and as a helping hand to the capable and industrious family or community whose progress is blocked by lack of credit resources.

A family in need of farm financing, or a loan for an adequate home, may be of modest circumstances and lack credentials for conventional credit. A rural locality may be without a local lending institution, financial needs of the area may exceed the capacity of institutions that are there, or a rural community may not be able to qualify for financing through the conventional bond market.

In circumstances such as these, resources brought within reach through FmHA help to make up for shortages in local and private resources. As it lends money raised throughout the Nation from investors in Government securities or guarantees loans made by city banks and other commercial lenders, FmHA relays into the rural United States a flow of outside capital needed for farm, home, community and rural economic development.

Historically, the availability of credit through FmHA, when none other was to be found, has enabled hundreds of thousands of farm families to keep their foothold on the land, rather than abandon farming. More than 1.3 million ill-housed rural families have moved into adequate homes. Approximately 22,000 rural localities and farmland sections have solved their water and sanitation problems through modernized central water and sewer systems. These are benchmarks of rural progress toward which programs delivered through FmHA have made significant contributions.

The "supervised loan" principal adopted by the agency in its earliest years still is necessary to help borrowers achieve the purposes of their loans and to pay back what they have borrowed. Loan losses written off during the 46 years of the agency amount to less than 1 percent of principal advanced.

SOURCES OF INSURED LOAN FUNDS

FmHA loans classified as "insured" are made from three loan revolving funds. The oldest is the Agricultural Credit Insurance Fund (ACIF) established when FmHA began to make insured loans in the 1940's, and now the fund from which all farmer-program loans are made. The Rural Housing Insurance Fund (RHIF) was established with inauguration of insured rural housing loans in 1965. The Rural Development Insurance Fund (RDIF), established under the Rural Development Act of 1972, took over from ACIF the agency's lending for water, sewer and other community facilities, and for business and industrial development.

The revolving funds are nourished by the incoming flow of loan repayments, plus the sale of Certificates of Beneficial Ownership to the Federal Financing Bank.

Prior to 1974, investors received actual notes or other security instruments FmHA had taken from borrowers. The investor supplied to FmHA an amount equal to principal owed on the note and the agency guaranteed repayment of the investments with interest. As borrowers repaid loans, payments were made to investors and the value of the investment was reduced. Until 1970, with FmHA program levels requiring less than $1 billion a year of note marketing, sales were conducted directly from FmHA. From 1970 through 1973, as marketing requirements rose to more than $2 billion a year, the agency increased sales by marketing large blocks of notes to security dealers, who in turn sold them to trust funds and other large investors.

In 1974, FmHA discontinued the marketing of actual notes and introduced a new investment security instrument, the Certificate of Beneficial Ownership (CBO). CBO's are issued against pools of loan notes and signify that investors will share in interest earnings. Since 1977, FmHA has placed CBO's only with the Federal Financing Bank, an institution closely related to the Department of the Treasury, and has sold no CBO's to the public.

SUMMARY BY PROGRAM AREA

From the beginning of the Resettlement Administration in 1935 until the end of fiscal year 1981, a total of $100,340,985,952 was advanced or obligated in more than 9 million loans and grants made through FmHA and its predecessor agencies.

Program by program, the all-time totals as of September 30, 1981, are as shown on page 13.

FARMERS HOME ADMINISTRATION
Loans and Grants by Program -- All-Time Total
through September 30, 1981

	Number of Loans or Grants	Dollar Amount
FARMER PROGRAMS:		
Farm Operating Loans	2,279,491	$ 11,242,531,206
Farm Ownership Loans	367,078	8,769,894,290
Recreation Loans (Individual)	454	19,816,130
Emergency Loans	1,132,823	18,397,849,414
Economic Emergency Loans	121,000	6,628,618,280
Grazing Association Loans	605	129,419,696
Soil and Water Loans (Individual)	39,991	431,684,752
Irrigation and Drainage Loans	606	30,927,909
Indian Land Acquisition Loans	73	82,764,400
Farmer Programs, Total	3,942,121	$ 45,733,506,077
RURAL HOUSING PROGRAMS:		
Individual Housing Loans	1,639,309	$ 28,040,244,622
Very Low Income Repair Grants	39,269	87,942,687
Rural Rental Housing Loans	14,137	5,046,180,400
Rural Asst. Program:		
Rental Housing (76,530 Units)	-	1,516,992,434
Labor Housing (3,748 Units)	-	50,3[illegible],507
Farm Labor Housing Loans	1,395	[illegible]54,416,060
Farm Labor Housing Grants	188	129,873,560
Site Loans	1[illegible]	22,328,090
Self-Help Housing Grants	[illegible]48	55,810,831
Rural Housing Supervisory Assistance Grants	57	5,000,000
Housing Programs, Total	1,694,868	$ 35,109,567,191
COMMUNITY PROGRAMS:		
Water and Waste Disposal Loans	23,719	$ 7,221,694,844
Water and Waste Disposal Grants	11,265	2,096,723,336
Community Facility Loans	3,926	1,696,800,720
Industrial Development Grants	1,367	83,549,279
Watershed and Flood Prevention Loans	480	171,502,524
Resource Conservation and Development Loans	279	26,790,409
Rural Development Planning Grants (ADA)	605	19,000,000
Development Grants Other than FmHA	1,792	281,352,391
Community Programs, Total	43,433	$ 11,597,413,503
BUSINESS & INDUSTRY PROGRAMS:		
Guaranteed Business/Industrial Loans	6,804	$ 5,282,793,339
Business/Industry Programs, Total	6,804	$ 5,282,793,339
DISCONTINUED PROGRAMS:		
Emergency Livestock Loans	7,738	$ 1,045,660,130
State Corporation Farm Operating Loans	185,904	158,964,394
Rural Rehabilitation Loans	3,031,331	1,015,825,965
Economic Opportunity Loans (indiv.)	64,660	109,394,912
Economic Opportunity Loans (assn.)	1,476	21,107,481
*Recreation Association Loans	1,035	110,510,460
Rural Renewal Loans	56	6,550,300
Water Facility Loans (indiv.)	18,296	29,695,363
Water/Sewer Comprehensive Planning Grants	1,834	22,293,387
Bureau of Reclamation, Soil and Water Loans	283	4,935,550
Land Conservation and Development Loans	274	267,900
Special Impact Grants	2	2,700,000
State Corporation Farm Ownership Loans, Agricultural Credit Corporation Loans, Resettlement Projects, Water Utilization and Construction Loans	(number not available)	89,800,000
Total Discontinued	3,312,889	$ 2,617,705,842
GRAND TOTALS --	9,000,115	$100,340,985,952

* Recreation Assn. Loans included in Community Facility Loans since 1974.

The unpaid principal owed to FmHA on all FmHA loans as of September 30, 1981, totaled $52,469,451 billion.

The annual volume of programs, making FmHA the largest Federal loan agency dealing directly with borrowers, reflects the emphasis during the 1960's and 1970's on resources for development or revival of the whole rural community. Money spent on programs increased from $300 million to $1.6 billion during the 1960's. Since then, the following annual levels have been recorded:

FY 1969 -- $ 1,431,925,282
FY 1970 -- 1,639,748,570
FY 1971 -- 2,414,315,015
FY 1972 -- 2,789,805,921
FY 1973 -- 3,754,934,003
FY 1974 -- 3,591,084,198
FY 1975 -- 5,466,262,317
FY 1976 -- 5,393,792,929
FY 1977 -- 7,235,522,710
FY 1978 -- 11,088,919,995
FY 1979 -- 14,671,661,650
FY 1980 -- 12,965,757,960
FY 1981 -- 13,974,661,512

The downward dip between fiscal years 1973 and 1974 was attributed to an exceptionally great outlay for farm emergency loans in 1973 and a January-June moratorium on new subsidized housing that decreased the backlog of loan applications for fiscal year 1974. A large volume of emergency lending was the principal reason why obligations in fiscal year 1975 exceeded those of 1976. The $11 billion volume of 1978 and $14 billion volume of 1979 included record levels for farm emergency, housing, community facility, and business and industrial programs.

Following are summaries of current FmHA services.

FARMER PROGRAMS

FmHA helps finance farmers who cannot get credit they need from other lenders at reasonable rates and terms. FmHA held 7.3 percent of the total outstanding farm debt on January 1, 1979; 9.9 percent outstanding January 1, 1980; and 12.2 percent on January 1, 1982.

The average U.S. farmer has real estate assets of $342,577, up from 73,000 in 1975. The annual production expenses per farm average about $53,812. The average U.S. farmer has invested about $20,119 million in machinery and other non-real estate assets, up from $25,800 in 1970.

Farm ownership loans enable family farmers lacking other sources of credit to buy, improve, or refinance farm real estate. Family size farms operated by individuals, partnerships, cooperatives, or corporations are eligible. Loan limits are $200,000 for insured loans and $300,000 for guaranteed loans. Insured loans may be repaid in up to 40 years. The interest rate for these loans is set periodically, based on the cost of Government borrowing. Repayment terms and interest rates are negotiated between the borrower and the lender in the case of guaranteed loans. Borrowers must refinance through conventional lenders when sufficiently qualified, thereby "graduating" from FmHA credit. Loans may be guaranteed or made from insured funds, secured by mortgage on the farm real estate.

Farm operating loans, insured or guaranteed, are usually secured by chattel mortgage on feed, growing crops, livestock, machinery, or other elements of production. Family farmers and ranchers lacking other sources of production financing are eligible. Terms usually range from 1 to 7 years, according to loan purpose; the interest rate is set periodically, based on the cost of Government borrowing. The limit is $100,000 for insured loans and $200,000 for guaranteed loans.

Limited resource loans are made for the same purposes as farm ownership and operation loans to owner-operator or tenant-operators who, because of lack of equipment, capital, land, adequate financing, or due to under-developed farming practices, need a lower interest rate to have a reasonable chance of success. These are obstacles faced most often by young, beginning, and minority farmers who have not been able to develop farms which earn them an adequate living. The limited resource farmer borrows at the lower interest rates until able to pay the regular rate of lending.

Emergency loans help farmers recover from actual production losses inflicted by natural disasters such as drought, floods and hail storms. Additional loans--beyond funds to cover actual losses--are also available to help farmers get back into production. To be eligible for an emergency loan, the county in which the farm is located must be designated a disaster area. FmHA State Directors can make such designations where up to 25 farmers have suffered crop losses of 30 percent or more. If more than 25 farms are involved, disaster designations are made by the Secretary of Agriculture.

Economic emergency loans are designed to help farmers overcome economic hardships caused by credit scarcity or cost-price squeeze beyond their control. The loans, either direct or guaranteed, are available at the discretion of the Secretary only if the farmer cannot get credit from another source. The program, enacted in August 1978, provided a total of 121,000 loans totaling $6,628,618,280 through fiscal year 1981.

Other farmer programs include insured or guaranteed loans to individual farmers for recreational and other nonagricultural income-producing enterprises on farms and for improvement of soil and water resources, loans to nonprofit associations for irrigation and drainage systems and grazing ranges, loans to Indian tribal organizations to buy privately owned land lying within reservation boundaries, and loans for aquaculture.

HOUSING PROGRAMS

Housing credit was scarce in rural America until the late 1960's, and the consequences were highly visible throughout the Nation's towns and countryside. With 27 percent of the national population, rural America had 47 percent of the Nation's substandard housing. This meant that the ratio of bad housing to number of families was twice as great in rural communites as in the cities.

However, a large-scale attack on rural housing blight has been mounted by FmHA since 1965. Insured loan service comparable to Federal urban housing credit is available to rural people of low or modest income. Over 1 million new or modernized family-owned homes and about 250,000 new apartment units have been built in rural communities. About one-third of the apartment projects serve the need of elderly people for low-cost rental housing.

FmHA's housing program has helped provide decent homes or apartments for the "outmigration" of people from metropolitan areas to small towns and rural areas. Between 1970 and 1975, an estimated 4 million people had moved to the country.

Since 1949, FmHA has provided $35.1 billion for housing. During fiscal year 1981, FmHA loans and grants funded more than 114,000 living units for $4 billion.

Individual home ownership (section 502) insured loans go to families of low and moderate income, including senior citizens, who need adequate housing. Maximum term for repayments is 33 years. Interest rates vary according to the cost of Government borrowing. Interest credit, which may reduce interest to as low as 1 percent, may be available to qualified low-income borrowers. FmHA housing credit is available to eligible applicants in rural communities of not more than 10,000. FmHA housing credit may be available in communities between 10,000 and 20,000 population if they are not contained within a Standard Metropolitan Statistical Area (SMSA). It has been determined by the Secretary of Agriculture and the Secretary of Housing and Urban Development that there is a serious lack of credit for low- and moderate-income households. A very low income homeowner whose house is severely deficient may be eligible for a grant or a low-interest (section 504) loan for repairs needed to make the house safe and adequate for habitation and to remove health hazards. A maximum loan of $7,500, a maximum grant of $5,000, or maximum loan-grant combination of $7,500 may be available to help very low income elderly homeowners make necessary repairs to their homes. Applicants must be 62 years of age or older to qualify for grant assistance.

Rental housing (section 515) insured loans provide modernized rental or cooperative housing for persons with low and moderate incomes and for those age 62 and older in rural communities of not more than 10,000 population. Such loans may also be available in communities between 10,000 and 20,000 population if the facility is not within an SMSA. The loans are repayable in not more than 50 years, with reduced interest available to public, nonprofit, and limited-profit developers of modern units priced within the means of low-income tenants. Provisions are made for interest reductions under certain circumstances, so that low-income tenants may pay a rent within their means. Rent paid by low-income tenants also can be supplemented through a rental assistance program administered by FmHA or HUD's section eight rent subsidy program.

Mutual self-help housing loans are made to families who wish to work together to build their own homes with financial and technical assistance from FmHA.

Other housing programs include 2-year loans to nonprofit organizations to develop rural homesites, loans and grants for development of adequate farm labor housing, grants to qualified organizations to help low-income families accomplish "self-help" homebuilding projects, and home weatherizing improvements with simplified financing through FmHA and rural electric cooperatives or other utility companies.

COMMUNITY PROGRAMS

Water and waste disposal systems -- Some 10,970 systems, ranging in service from small local communities to intercommunity or multicounty areas, have been built since 1965, when Congress converted FmHA's early-day water facilities loan program into a loan and grant program for both water and waste disposal systems. Projects lacking other means of financing may receive FmHA loans for up to 40 years. Grants can be added where necessary to prevent a system's debt repayment load from imposing excessive service rates on patrons of the system. Systems financed through FmHA cover rural countryside and towns of not more than 10,000 population.

Other community facilities -- The Rural Development Act of 1972 extended FmHA's lending authority to include community facilities provided by public bodies or nonprofit organizations that provide essential services to rural residents. Fire protection, community halls, hospitals, nursing homes, medical clinics, libraries, and schools are among more than 30 types of community facilities eligible for financing. Facilities may be in the rural countryside or towns of up to 20,000 population. Loan repayment is scheduled for up to 40 years. The interest rate is adjusted periodically at rates not to exceed the current market yield for outstanding municipal obligations. Additional interest charges may apply to projects located on prime or unique farmland.

Loan applications for public safety such as rescue or fire protection facilities and equipment receive priority status for funding. Cofunding of projects with other lending sources is emphasized in order to receive maximum benefit from program sources.

Other programs -- Local costs of projects developed under the small watershed and resource conservation and development programs also may be financed through loans by FmHA to sponsoring local organizations.

BUSINESS AND INDUSTRY PROGRAMS

The business and industry (B&I) loan program was legislated in 1972 under Section 310B of the Consolidated Farm and Rural Development Act in order to encourage business and industrial development in rural areas and to create or preserve employment opportunities in these areas. The program is administered primarily as a guaranteed loan program in communities under 50,000 population, with emphasis on communities of less than 25,000.

When the program began in 1974, there was little rural business credit available. Most industry had not yet recognized the benefits of locating in rural areas and, at that time, national migration was toward larger cities. Today the situation has reversed. During the life of the program, FmHA has guaranteed 6,804 business and industry loans totaling $5.3 billion. In fiscal year 1981, 638 of these loans were made and guaranteed for $652.3 million.

Under the business and industry guaranteed loan program, commercial loans, guaranteed up to 90 percent against loss of principal and interest, are made by lenders to individuals and corporations. The interest rate on these guaranteed loans is negotiated between the borrower and the lender. Loans may be made for improving, developing, or financing business, industry, and employment. For fiscal year 1982, Congress authorized the addition of $250 million funding authority for alcohol fuel facility loans. The loan proceeds may be used for the purchase of buildings, land, or equipment, as well as to provide working capital. At times it may be used to refinance debt.

1981 OBLIGATIONS FOR ALL PROGRAMS

Nationwide and State totals of major FmHA loans and grants for fiscal year 1981 follow.

U.S. DEPARTMENT OF AGRICULTURE
FARMERS HOME ADMINISTRATION
Loans and Grants by Program -- Fiscal Year 1981

	Number of Loans or Grants	Dollar Amount
FARMER PROGRAMS:		
Farm Operating Loans	29,838	847,603,360
Farm Ownership Loans	11,853	813,285,110
Recreation Loans (Individual)	22	1,830,360
Emergency Loans	138,990	5,112,290,430
Economic Emergency Loans	27,348	1,245,354,030
Grazing Association Loans	0	0
Soil and Water Loans (Individual)	2,256	49,612,730
Irrigation and Drainage Loans	6	296,500
Indian Land Acquisition Loans	4	3,566,000
Farmer Programs, Total	210,317	8,073,838,520
RURAL HOUSING PROGRAMS:		
Low-Moderate Income Housing Loans	88,922	2,585,282,054
Guaranteed Above-Moderate Income Housing Loans	174	5,723,450
Very Low Income Repair Loans	5,799	17,870,830
Very Low Income Repair Grants	7,687	22,747,113
Rural Rental Housing Loans	1,466	864,765,230
Rural Asst. Program:		
Rental Housing (16,859 Units)	-	396,773,596
Labor Housing (796 Units)	-	6,208,800
Farm Labor Housing Loans	250	18,548,040
Farm Labor Housing Grants	23	10,518,320
Site Loans	7	929,300
Self-Help Housing Grants	78	13,197,020
Rural Housing Supervisory Assistance Grants	13	1,000,000
Housing Programs, Total	104,419	3,943,563,753
COMMUNITY PROGRAMS:		
Water and Waste Disposal Loans	1,768	749,999,980
Water and Waste Disposal Grants	785	210,021,509
Development Grants Other Than FmHA	281	58,080,100
Community Facility Loans	862	260,000,000
Industrial Development Grants	124	5,000,000
Watershed and Flood Prevention Loans	8	16,912,100
Resource Conservation and Development Loans	14	1,965,300
Rural Development Planning Grants (ADA)	107	3,000,000
Community Programs, Total	3,949	1,304,978,989
BUSINESS AND INDUSTRIAL PROGRAM:		
Business and Industrial Loans	638	652,280,250
B&I Program Totals	638	652,280,250
FmHA PROGRAM TOTALS:		
Loans	310,225	13,248,115,054
Grants (FmHA)	8,817	668,466,358
Other Than FmHA Grants	281	58,080,100
FmHA PROGRAM TOTAL	319,323	13,974,661,512

NOTE: All guaranteed loans based on guarantee rates.

MAJOR PROGRAM TOTALS BY STATE - FISCAL YEAR 1981

(In Millions of Dollars)

	FARM PROGRAMS		HOUSING PROGRAMS		COMMUNITY SERVICE		BUSINESS & INDUSTRY		TOTAL ALL PROGRAMS	
STATE	Number	Dollars	Number	Dollars	Number	Dollars	Number	Dollars	Number	Dollars
ALABAMA	7,449	$ 253.7	2,619	$ 78.1	113	$ 38.6	9	$ 6.9	10,190	$ 377.3
ALASKA	2	.0	125	6.3	9	1.8	6	3.1	142	11.2
ARIZONA	585	58.7	998	35.0	34	10.6	4	6.8	1,621	111.1
ARKANSAS	14,410	513.9	3,036	94.3	108	33.5	21	20.6	17,575	662.3
CALIFORNIA	1,530	218.7	2,959	150.5	80	36.4	6	7.6	4,575	413.2
COLORADO	1,040	59.9	1,038	38.6	57	10.3	6	5.9	2,141	114.7
CONNECTICUT	164	10.2	577	24.4	48	10.5	4	.8	793	45.9
DELAWARE	287	11.7	251	8.1	10	2.1	5	1.4	553	23.3
FLORIDA	2,189	117.9	2,747	99.7	73	42.7	13	16.8	5,022	277.1
GEORGIA	12,097	596.2	3,593	125.9	101	36.5	11	31.9	15,802	790.5
HAWAII	89	4.5	415	12.5	3	.6	4	2.2	511	19.8
IDAHO	2,247	123.7	1,182	35.4	39	8.6	9	3.2	3,477	170.9
ILLINOIS	7,565	241.3	2,749	94.1	123	39.3	16	28.0	10,453	402.7
INDIANA	3,034	163.9	2,455	87.9	81	29.4	9	7.1	5,579	288.3
IOWA	6,248	209.9	2,427	77.8	135	25.7	10	30.3	8,820	343.7

MAJOR PROGRAM TOTALS BY STATE - FISCAL YEAR 1981

(In Millions of Dollars)

STATE	FARM PROGRAMS		HOUSING PROGRAMS		COMMUNITY SERVICE		BUSINESS & INDUSTRY		TOTAL ALL PROGRAMS	
	Number	Dollars	Number	Dollars	Number	Dollars	Number	Dollars	Number	Dollars
KANSAS	4,538	$ 138.3	1,364	$ 38.3	55	$ 21.3	9	$ 5.7	5,966	$ 203.6
KENTUCKY	6,456	176.1	3,400	117.3	120	50.6	20	39.0	9,996	383.0
LOUISIANA	9,155	385.5	3,796	146.8	126	37.9	58	38.0	13,135	608.2
MAINE	1,218	43.0	1,763	49.7	49	16.0	10	4.1	3,040	112.8
MARYLAND	933	33.0	921	36.3	48	12.7	8	4.2	1,910	86.2
MASSACHUSETTS	293	10.9	1,100	42.2	33	14.5	13	4.4	1,439	72.0
MICHIGAN	3,031	140.5	2,885	110.9	57	37.4	33	32.9	6,006	321.7
MINNESOTA	7,088	261.1	1,738	75.4	125	26.5	12	9.3	8,963	372.3
MISSISSIPPI	13,491	582.9	4,693	141.9	186	41.1	24	10.9	18,394	776.8
MISSOURI	10,746	306.4	3,865	114.9	96	35.9	23	11.3	14,730	468.5
MONTANA	2,135	97.9	704	25.6	23	6.7	4	5.0	2,866	135.2
NEBRASKA	5,765	188.1	1,063	34.0	55	13.0	1	.1	6,884	235.2
NEVADA	121	5.2	206	10.0	13	2.5	2	3.9	342	21.6
NEW HAMPSHIRE	105	2.4	732	29.0	34	5.1	10	7.0	881	43.5
NEW JERSEY	731	29.9	1,046	36.9	28	15.3	5	2.6	1,810	84.7

MAJOR PROGRAM TOTALS BY STATE - FISCAL YEAR 1981

(In Millions of Dollars)

	FARM PROGRAMS		HOUSING PROGRAMS		COMMUNITY SERVICE		BUSINESS & INDUSTRY		TOTAL ALL PROGRAMS	
STATE	Number	Dollars	Number	Dollars	Number	Dollars	Number	Dollars	Number	Dollars
NEW MEXICO	826	$ 41.9	766	$ 25.0	50	$ 12.8	4	$ 1.7	1,646	$ 81.4
NEW YORK	3,017	95.8	2,473	66.6	167	44.9	38	28.6	5,695	235.9
NORTH CAROLINA	10,832	321.5	6,874	229.3	196	63.8	78	73.9	17,980	688.5
NORTH DAKOTA	9,361	308.9	883	42.7	50	45.0	11	9.6	10,305	406.2
OHIO	1,482	74.9	2,237	89.0	75	41.6	26	43.7	3,820	249.2
OKLAHOMA	7,343	282.4	2,883	89.2	140	42.1	8	2.0	10,374	415.7
OREGON	1,089	57.6	1,656	62.0	43	14.7	7	9.7	2,795	144.0
PENNSYLVANIA	2,716	103.5	2,846	114.0	126	57.7	13	13.7	5,701	288.9
RHODE ISLAND	34	1.0	236	9.1	22	3.2	2	.3	294	13.6
SOUTH CAROLINA	4,981	192.3	2,460	93.0	110	40.6	36	22.4	7,587	348.3
SOUTH DAKOTA	9,162	291.5	929	26.1	56	13.1	8	1.4	10,155	332.1
TENNESSEE	6,961	223.5	3,972	125.6	167	54.6	15	9.7	11,115	413.4
TEXAS	16,311	687.4	3,507	126.1	133	71.0	52	27.7	20,003	912.2
UTAH	415	13.6	788	29.7	37	9.9	4	.6	1,244	53.8
VERMONT	479	11.3	939	30.2	36	8.6	8	3.8	1,462	53.9

MAJOR PROGRAM TOTALS BY STATE - FISCAL YEAR 1981

(In Millions of Dollars)

	FARM PROGRAMS		HOUSING PROGRAMS		COMMUNITY SERVICE		BUSINESS & INDUSTRY		TOTAL ALL PROGRAMS	
STATE	Number	Dollars	Number	Dollars	Number	Dollars	Number	Dolllars	Number	Dollars
VIRGINIA	4,047	$ 118.3	2,694	$ 80.8	73	$ 30.7	8	$ 2.5	6,822	$ 232.3
WASHINGTON	1,192	66.7	1,300	61.1	95	20.9	5	1.6	2,592	150.3
WEST VIRGINIA	822	18.2	1,856	60.6	76	32.0	42	27.1	2,796	137.9
WISCONSIN	3,096	121.2	2,120	68.4	53	21.9	17	12.7	5,286	224.2
WYOMING	507	24.3	314	12.1	23	8.6	5	2.0	849	47.0
PUERTO RICO	875	31.3	3,497	96.3	36	36.0	8	18.5	4,416	182.1
VIRGIN ISLANDS	22	.9	248	8.6	1	1.2	2	.1	273	10.7
WEST PACIFIC TERRITORIES	5	.1	806	14.7	1	.4	---	---	812	15.2

(Totals may not add due to rounding.)

(Totals do not include weatherization, rural rental assistance or mutual self-help and contracts.)

STATISTICS ON FmHA PERFORMANCE BY FISCAL YEAR
(Dollars in Billions)

I Cumulative Obligations:

	1979		1980		1981	
	Number	Amount	Number	Amount	Number	Amount
Cumulative Loans/ Grants	8,404,289	$73.1	8,679,279	$86.0	8,998.324	$100.0
Farm Operating	2,217,442	9.5	2,249,653	10.4	2,279,491	11.2
Emergency	939,439	11.0	993,833	13.3	1,132,823	18.4
Economic Emergency .	48,765	3.2	93,652	5.4	121,000	6.6
Farm Ownership	342,253	7.0	355,225	8.0	367,078	8.8
* Total Farm	6,894,662	33.7	7,041,766	40.0	7,252,083	48.1
RH 502/504	1,432,023	22.6	1,544,414	25.4	1,639,309	28.0
RR Housing	11,132	3.3	12,671	4.2	14,137	5.0
* Total Housing, Loans/Grants ..	1,467,631	26.9	1,590,449	31.1	1,694,868	35.1
Water and Waste Loans/Grants	29,595	7.4	32,431	8.4	34,984	9.4
* Total Community Loans/Grants .	36,990	8.9	40,898	10.3	44,569	11.3
Business & Industrial Loans	5,006	3.6	6,166	4.6	6,804	5.3

II Write-offs as Percent of Advances (Insured and Direct Programs):

	1979	1980	1981
	Sept. 30th	Sept. 30th	Sept. 30th
Farm Operating	1.4%	1.4%	1.3%
Farm Emergency:			
Total	1.2%	1.0%	.7%
Current Program	.3%	.3%	.2%
Economic Emergency ...	-	**	**
Farm Ownership	.13%	.12%	.11%
RH 502/504	.15%	.15%	.14%
Rural Rental Housing .	**	**	**
Business & Industrial Loans (Insured)	0	0	0
* All Programs	.7%	.6%	.6%

III Active Borrowers and Amount Outstanding as of End of Fiscal Year: a/

	1979		1980		1981	
	Active Borrowers	Amount (Bil.)	Active Borrowers	Amount (Bil.)	Active Borrowers	Amount (Bil.)
Farm Operating ..	79,650	$1.6	87,073	$2.0	91,829	$2.1
Farm Emergency ..	94,518	6.4	93,112	7.4	126,640	10.7
Econ. Emergency .	34,398	2.7	61,225	4.5	69,241	5.0
Farm Ownership ..	114,506	4.1	118,424	4.7	121,385	5.3
RH 502/504	899,559	15.7	950,140	17.5	990,451	19.3
Rental Housing ..	6,077	2.1	7,098	2.9	7,915	3.7
Water & Waste ...	9,701	3.5	10,481	4.1	11,157	4.6
* All Programs.	1,261,253	37.3	1,351,045	44.6	1,442,905	52.5

a/ Excludes Guaranteed Loans

* Includes small programs not listed, so columns do not add.
** Less than 0.05 percent.

SOURCE: RC 205, 616, 705, & 752

STATISTICS ON FmHA PERFORMANCE

Cumulative, all loans and grants obligated through September 30, 1981:

9.0 Million loans/grants made
100.0 Billion obligated in loans/grants

Farm Operating Loans	-	2,279,491	loans -	$ 11.2 billion
Farm Emergency Loans	-	1,132,823	loans -	18.4 billion
Economic Emergency	-	121,000	loans -	6.6 billion
Farm Ownership Loans	-	367,078	loans -	8.8 billion
All Farm Loan Totals	-	7,252,083	loans -	48.1 billion *
502-504 Housing Loans	-	1,639,309	loans -	28.0 billion
Rental Housing Loans	-	14,137	loans -	5.0 billion
All Housing Loan & Grant Totals	-	1,694,868		35.1 billion *
Water/Waste Loans & Grants	-	34,984		9.4 billion
All Community Loan and Grant Totals	-	44,569		11.5 billion *
B & I Loans	-	6,804	loans -	5.3 billion

Write-offs as percent of advances for Insured and Direct Programs:

Farm Operating Loans	-	1.3
Farm Emergency Loans:		
Total	-	.7
Current Program	-	.2
Economic Emergency	-	**
Farm Ownership Loans	-	.11
502-504 Housing Loans	-	.14
Rental Housing Loans	-	**
B&I Loans (Insured)	-	0
Total, all active programs	-	.6

Cumulative borrowers and dollars outstanding, September 30, 1981: a/

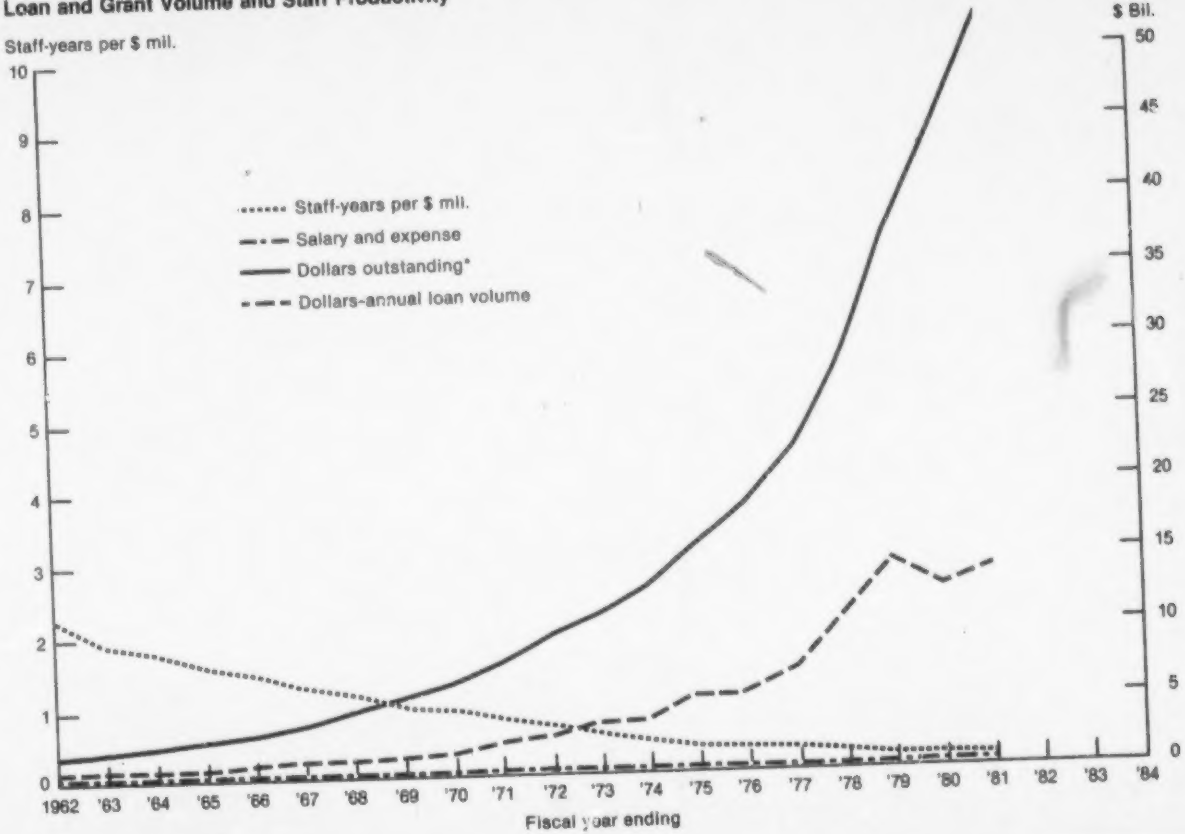
Programs	Active Borrowers	Billion Dollars
Farm Operating	91,829	$ 2.1
Farm Emergency	126,640	10.7
Economic Emergency	69,241	5.0
Farm Ownership	121,385	5.3
502-504 Housing	990,451	19.3
Rental Housing	7,915	3.7
Water/Waste (only)	11,157	4.6
Total All Programs *	1,442,905	52.5

a/ Excludes Guaranteed Loans.

* Includes minor programs not shown, so columns do not add.
** Less than 0.5 percent.

(Chart 1)

Loan and Grant Volume and Staff Productivity



*Does not include "Guaranteed Loans."

LOAN AND GRANT VOLUME AND STAFF PRODUCTIVITY

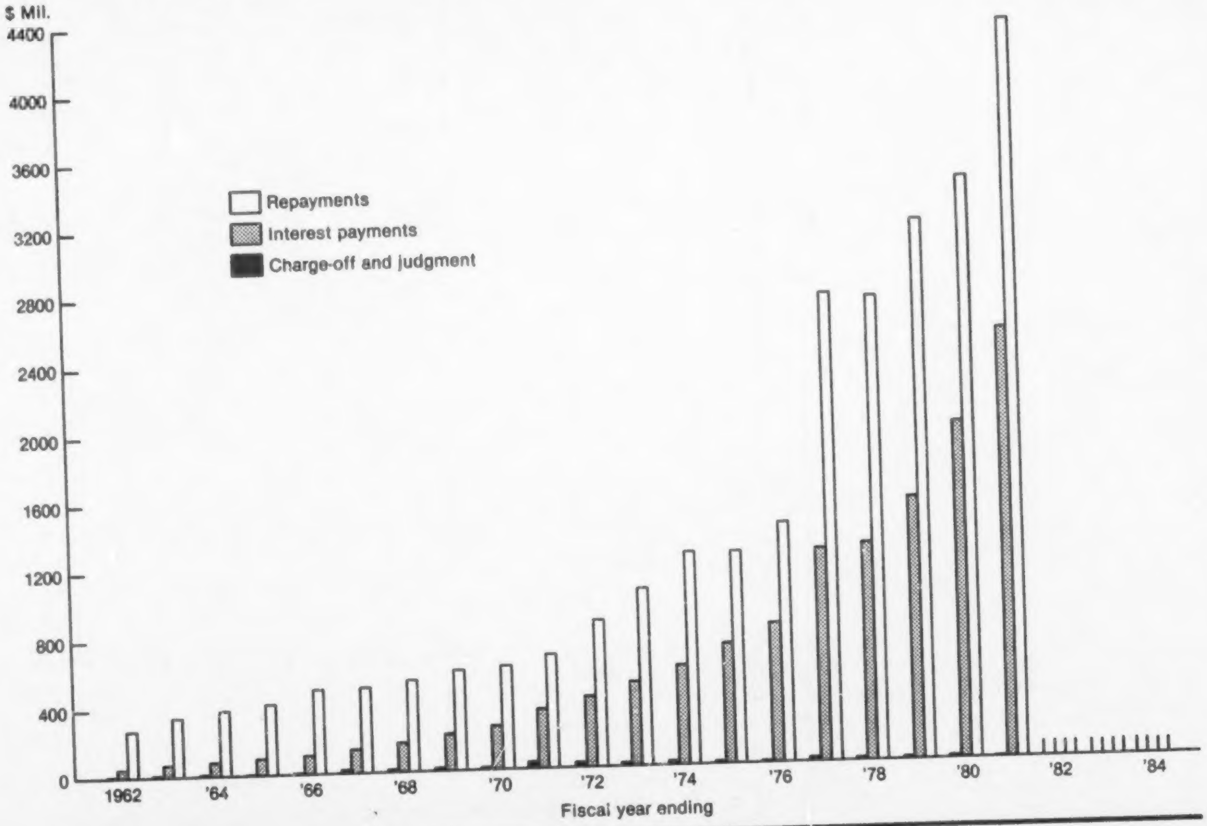
	*Principal Dollars Outstanding End of FY (Billions)	Annual Loan & Grant Volume (Billions)	Total (Billions)	Total Staff Years	Salaries and Expenses (Millions)	Dollars For Which One Person Is Responsible (Millions)	No. of Staff Years For Loan Processing and Servicing Per Million
1962	1.620	$ .637	2.257	5,253.0	$ 39.720	$ .430	2.3
1963	2.038	.796	2.834	5,419.0	40.800	.523	1.9
1964	2.353	.747	3.100	5,484.1	44.218	.565	1.8
1965	2.753	.800	3.553	5,858.0	49.563	.607	1.6
1966	3.221	1.088	4.309	6,590.1	57.826	.654	1.5
1967	3.914	1.390	5.304	7,102.5	62.214	.747	1.3
1968	4.778	1.359	6.137	7,360.1	67.861	.834	1.2
1969	5.552	1.431	6.983	7,271.7	72.354	.960	1.0
1970	6.525	1.639	8.164	7,662.7	86.159	1.065	.94
1971	7.869	2.414	10.283	8,533.9	103.422	1.205	.83
1972	9.622	2.789	12.411	8,865.9	113.888	1.400	.71
1973	11.206	3.750	14.956	8,672.0	121.766	1.725	.58
1974	12.977	3.591	16.568	8,168.4	128.724	2.029	.49
1975	15.836	5.466	21.302	8,359.0	142.828	2.548	.39
1976	18.456	5.393	23.849	8,555.4	158.692	2.788	.36
1977	22.526	7.236	29.762	9,405.4	187.959	3.164	.32
1978	28.712	11.089	40.428	10,233.0	227.867	3.952	.26
1979	37.304	14.672	51.976	10,842.0	254.517	4.794	.21
1980	44.630	12.966	57.596	11,813.0	288.321	4.876	.21
1981	52.470	13.975	66.445	12,541.0	322.748	5.298	.19

* Does not include "Guaranteed Loans."

(Table 1)

(Chart 2)

Repayments, Charge-Offs, Judgments, and Interest Payments



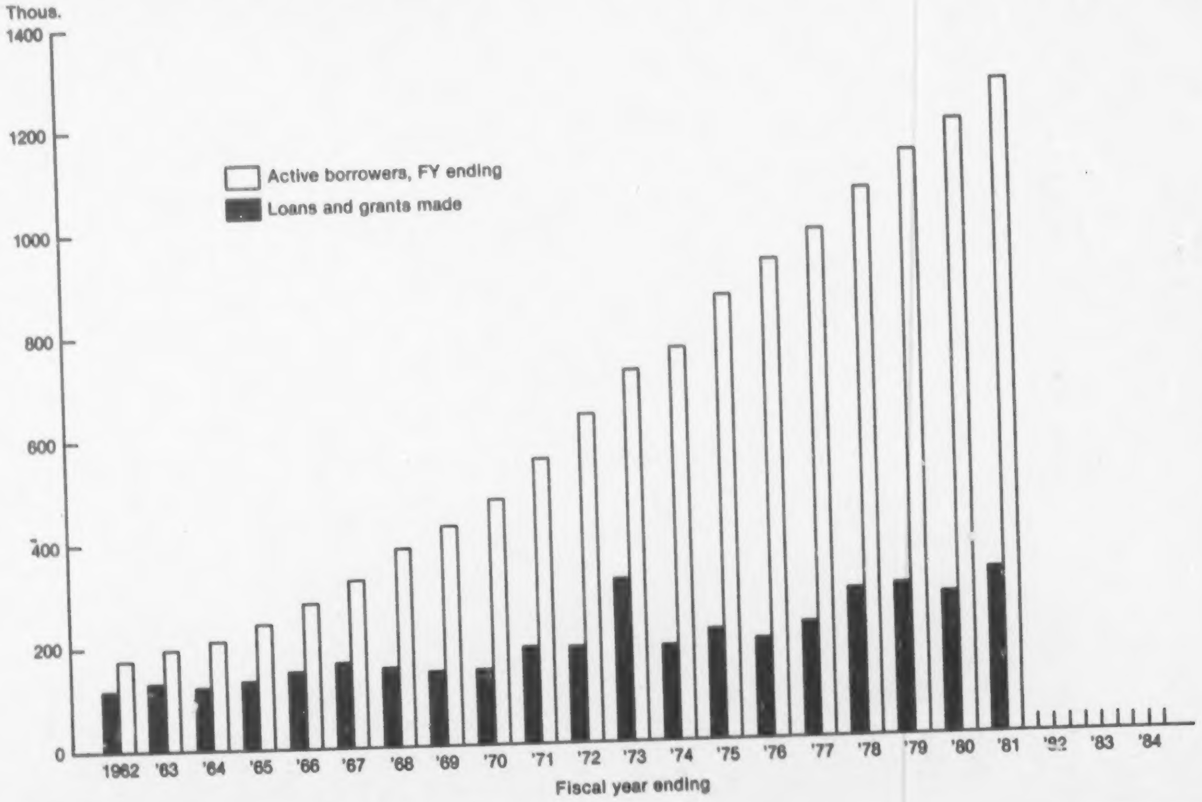
REPORT OF LOAN COLLECTION AND DEBT ADJUSTMENT ACTIVITIES DURING YEAR

Fiscal Year	Principal Repayments (Millions)	Principal Charge-Offs and Judgments (Millions)	Interest Payments (Millions)
1962	$ 280.9	$ 5.2	$ 52.2
1963	349.1	5.8	67.9
1964	388.9	7.0	84.9
1965	413.7	4.8	99.7
1966	502.6	4.9	118.6
1967	503.4	17.9	145.7
1968	539.9	12.5	182.6
1969	599.2	16.1	222.9
1970	610.5	13.7	259.1
1971	671.6	33.8	344.8
1972	859.2	26.3	415.4
1973	1,045.0	19.7	497.9
1974	1,247.1	22.2	589.2
1975	1,244.2	18.5	704.1
1976	1,404.5	9.2	824.6
1977	2,753.6	21.9	1,251.7
1978	2,725.5	14.3	1,268.3
1979	3,173.3	16.5	1,543.1
1980	3,418.9	15.6	1,983.3
1981	4,325.4	6.9	2,522.6

(Table 2)

(Chart 3)

Total Active Borrowers; Annual Loans Made



*Guaranteed Loans not Included. **Estimated.

FmHA STATISTICS

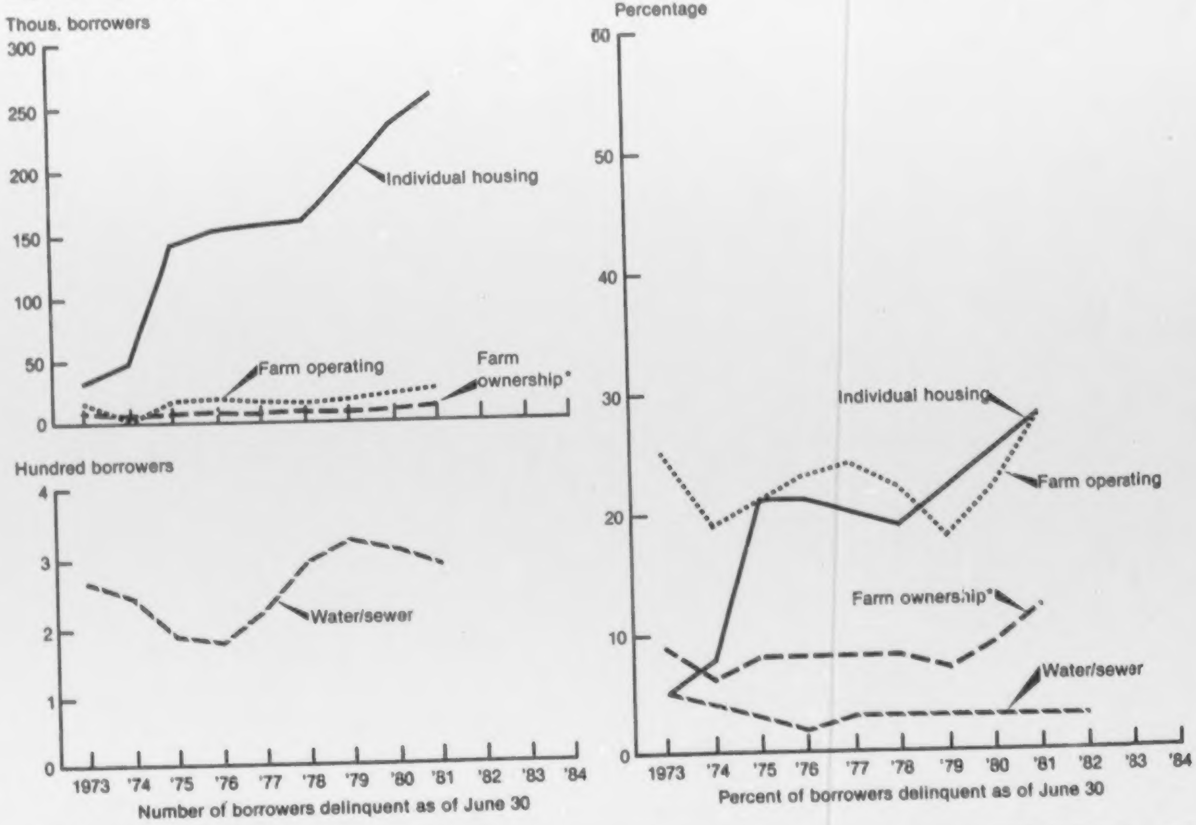
	Number of Active Borrowers as of end of Fiscal Year*			Total Number of Loans & Grants Made
	Indiv.	Assoc.	Total	
1962	175,972	428	176,400	119,958
1963	198,089	543	198,632	134,172
1964	212,420	788	213,208	127,013
1965	241,790	1,265	243,055	138,020
1966	280,098	2,302	282,400	155,889
1967	324,418	3,909	328,327	169,630
1968	377,857	5,088	382,945	155,521
1969	418,167	6,233	424,400	148,414
1970	470,267	6,973	477,240	149,407
1971	548,143	7,556	555,699	191,913
1972	627,744	8,151	635,895	190,188
1973	710,980	8,705	719,653	318,587
1974	750,421	9,000	759,421	189,437
1975	844,527	9,997	854,524	216,852
1976	908,723	11,317	920,040	197,949
1977	967,066	12,945	980,011	222,684
1978	1,040,207	14,412	1,054,619	283,696
1979	1,108,353	16,173	1,124,526	294,890
1980	1,167,006	18,235	1,185,241	274,990
1981	1,228,277	19,929	1,248,206	319,045

* Guaranteed Loans not included

(Table 3)

(Chart 4)

Major FmHA Programs



*Does not include non-farm enterprises.

BORROWERS DELINQUENT, MAJOR PROGRAMS, BY NUMBER AND PERCENTAGE AS OF JUNE 30

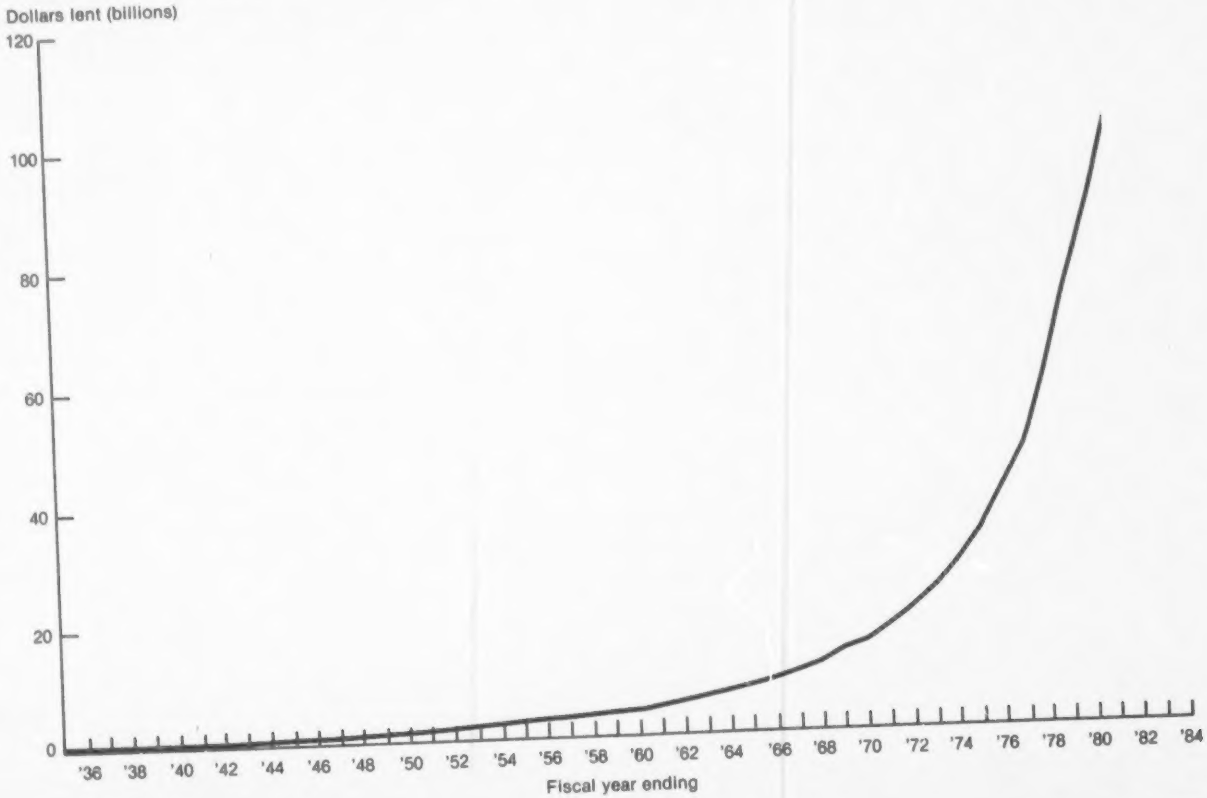
Program	1973		1974		1975		1976		1977		1978		1979		1980		1981	
	Number	%	Number	%	Number	%	Number	%	Number	%	Number	%	Number	%	Number	%	Number	%
Farm Ownership*	9,292	9	6,270	6	8,949	8	9,117	8	8,978	8	9,024	8	8,288	7	10,558	9	14,125	12
Farm Operating	15,918	25	1,757	19	17,858	21	19,425	23	17,891	24	17,772	22	17,959	18	21,271	24	25,080	28
Water & Waste	272	5	243	4	187	3	177	2	222	3	292	3	325	3	308	3	286	3
Individual Housing	27,252	5	47,820	8	142,435	21	153,425	21	156,344	20	160,044	19	195,179	22	235,406	25	260,028	28

* Does not include nonfarm enterprises.

(Table 4)

(Chart 5)

Cumulative Dollars Lent, Grants Administered



Note: Amounts will not equal due to rounding.

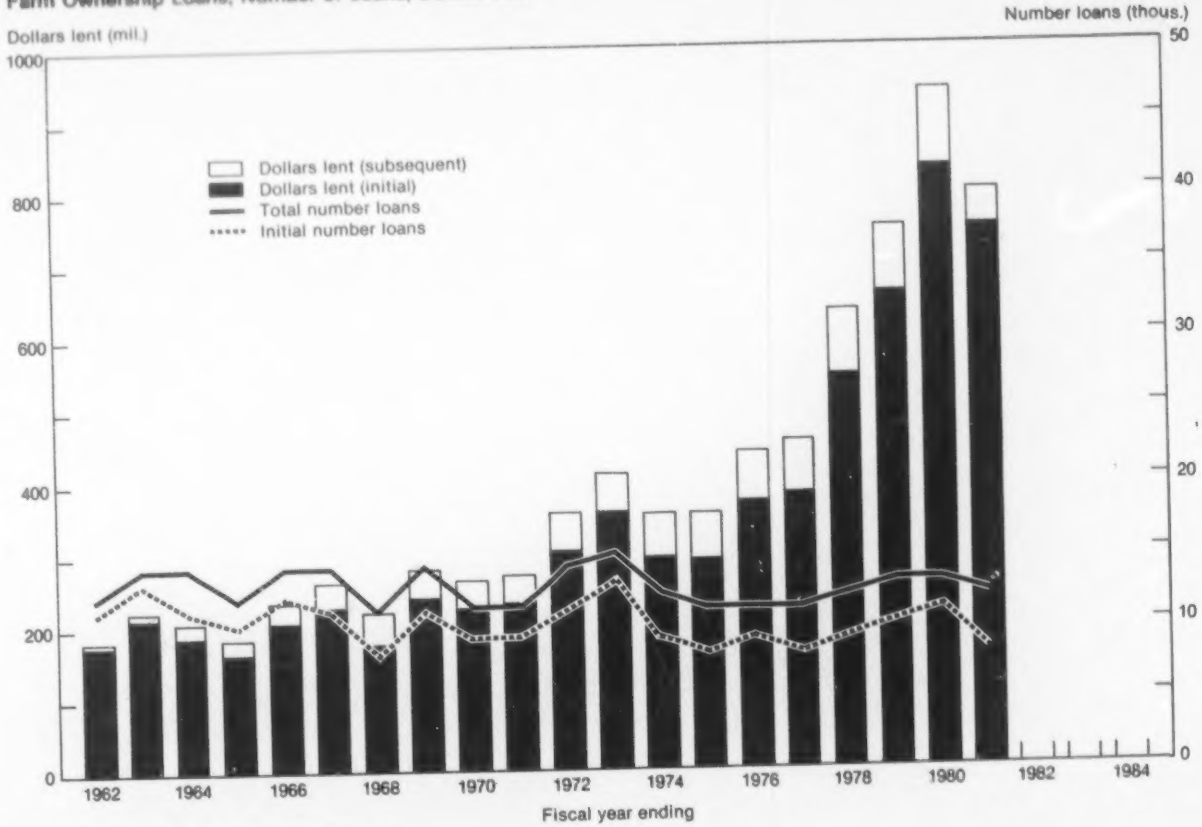
Dollars Loaned and Grants Administered
(Cumulative)

	Farm (Thousand)	Housing (Thousand)	Community (Thousand)	Farm Housing Community (Thousand)
1935	676			676
1936	76,964			76,964
1937	152,466			152,466
1938	232,770			232,770
1939	376,552			376,552
1940	511,576		2	511,578
1941	677,655		56	677,711
1942	854,019		134	854,153
1943	988,046		149	988,195
1944	1,082,514		149	1,082,663
1945	1,167,454		232	1,167,686
1946	1,295,580		381	1,295,961
1947	1,445,061		501	1,445,562
1948	1,528,128		661	1,528,789
1949	1,646,632		754	1,647,386
1950	1,809,284	18,161	1,013	1,828,457
1951	1,961,699	42,253	1,563	2,005,515
1952	2,152,421	63,408	1,961	2,217,789
1953	2,360,918	82,765	2,800	2,446,484
1954	2,636,422	98,833	3,676	2,738,932
1955	2,928,478	98,833	4,863	3,032,174
1956	3,231,423	102,554	5,835	3,339,812
1957	3,565,721	123,854	6,542	3,696,108
1958	3,861,819	156,911	7,540	4,026,270
1959	4,159,454	217,585	10,859	4,387,899
1960	4,426,742	258,321	11,707	4,696,771
1961	4,746,439	328,662	17,353	5,092,454
1962	5,273,854	425,160	30,856	5,729,870
1963	5,864,145	612,900	49,010	6,526,054
1964	6,428,571	750,243	95,034	7,273,848
1965	7,026,754	885,206	161,965	8,073,925
1966	7,692,062	1,153,755	316,793	9,162,610
1967	8,402,694	1,596,875	554,130	10,553,698
1968	9,040,063	2,089,911	781,816	11,911,789
1969	9,740,957	2,602,000	1,000,711	13,343,669
1970	10,383,687	3,395,835	1,203,896	14,983,417
1971	11,079,895	4,794,932	1,522,906	17,397,733
1972	11,898,367	6,413,709	1,875,464	20,187,539
1973	13,330,329	8,277,018	2,335,085	23,942,433
1974	14,353,648	10,070,394	3,119,913	27,543,955
1975	16,362,179	12,315,274	4,352,191	33,029,645
1976	18,187,039	14,840,862	5,412,773	38,440,675
1976 + TQ	18,561,883	15,751,596	5,907,085	40,220,565
1977	20,994,914	18,897,401	7,583,784	47,476,099
1978	25,990,776	22,658,749	9,937,676	58,587,201
1979	33,696,244	26,945,340	12,669,182	73,310,766
1980	40,045,519	31,166,003	15,065,002	86,276,524
1981	48,119,358	35,109,567	17,022,261	100,251,186

NOTE: Amounts will not equal due to rounding. (Table 5)

(Chart 6)

Farm Ownership Loans, Number of Loans, Dollars Lent*



*Includes direct loan costs. Excludes insured loan costs.

FARM OWNERSHIP PROGRAM
Number of Loans and Dollars Lent*

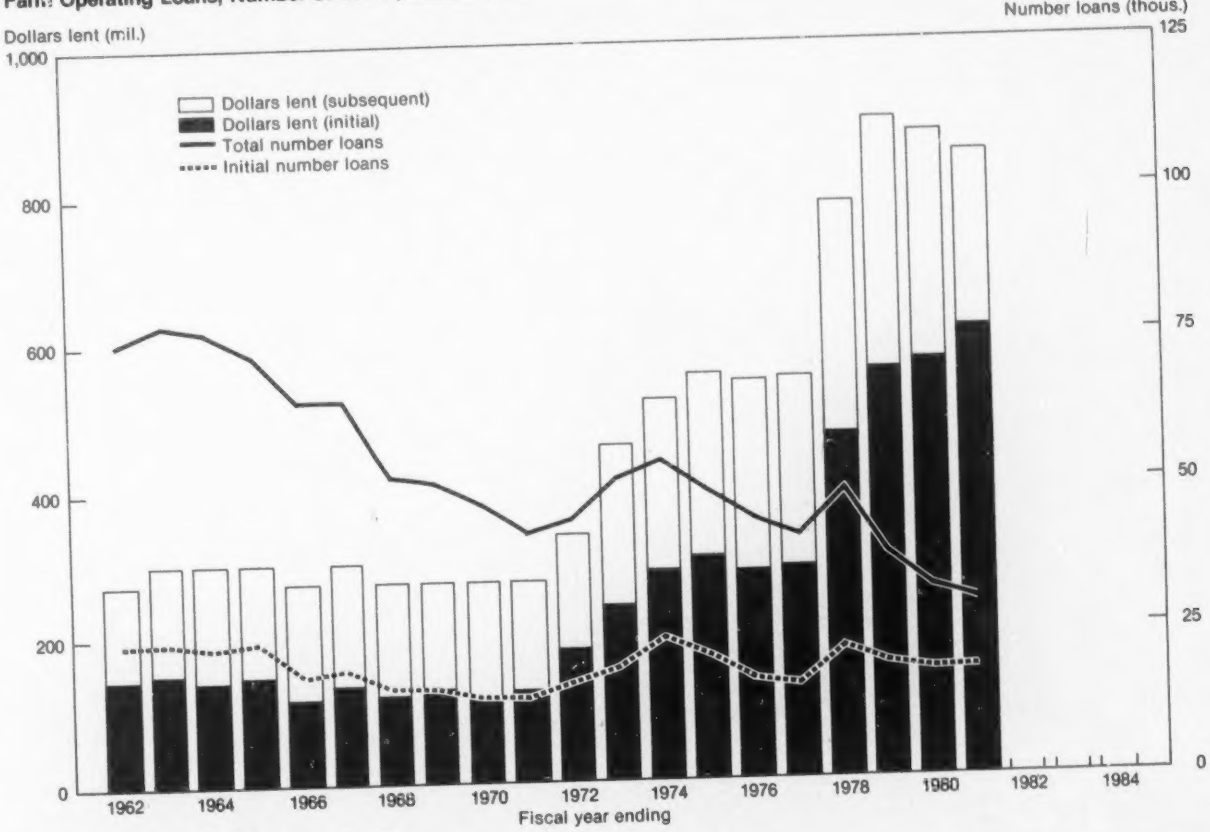
	Initial Loans		Subsequent Loans		Total Loans	
	Number	Amount	Number	Amount	Number	Amount
1962	10,943	$ 175,524,312	845	$ 7,483,366	11,788	$ 183,007,678
1963	13,286	212,200,471	1,121	9,555,527	14,407	221,755,998
1964	11,061	184,899,960	2,497	21,381,410	13,558	206,281,370
1965	9,885	162,295,970	2,301	20,295,320	12,186	182,591,290
1966	11,532	205,806,910	2,747	27,430,513	14,279	223,237,423
1967	11,101	226,587,210	2,886	33,412,389	13,987	259,999,599
1968	8,403	176,289,150	2,411	28,709,744	10,814	204,998,894
1969	10,525	237,047,040	3,177	40,073,052	13,702	277,120,092
1970	8,644	222,949,520	2,841	38,547,055	11,491	261,496,575
1971	8,522	230,560,910	2,434	37,875,258	10,956	268,436,168
1972	10,718	302,220,690	3,037	53,541,329	13,755	355,762,019
1973	12,593	356,058,150	2,899	52,059,220	15,492	408,117,370
1974	8,728	291,482,260	3,269	60,679,170	11,997	352,161,430
1975	7,550	286,608,341	3,048	65,024,420	10,598	351,632,761
1976	8,583	367,204,570	2,788	67,800,228	11,371	435,004,798
1977	8,353	378,916,850	2,769	72,323,130	11,122	451,239,980
1978	9,384	474,266,230	2,631	76,580,270	12,015	550,846,500
1979	10,179	667,699,570	2,389	95,465,200	12,568	768,164,770
1980	10,616	842,738,150	2,356	111,313,930	12,972	954,052,080
1981	9,014	688,163,820	2,839	125,121,290	11,853	813,285,110

* Includes Direct Loan Costs
Excludes Insured Loan Cost

(Table 6)

(Chart 7)

Farm Operating Loans, Number of Loans, Dollars Lent*



*Includes direct loan costs. Excludes insured loan cost.

FARM OPERATING LOAN PROGRAM
Number of Loans and Dollars Lent*

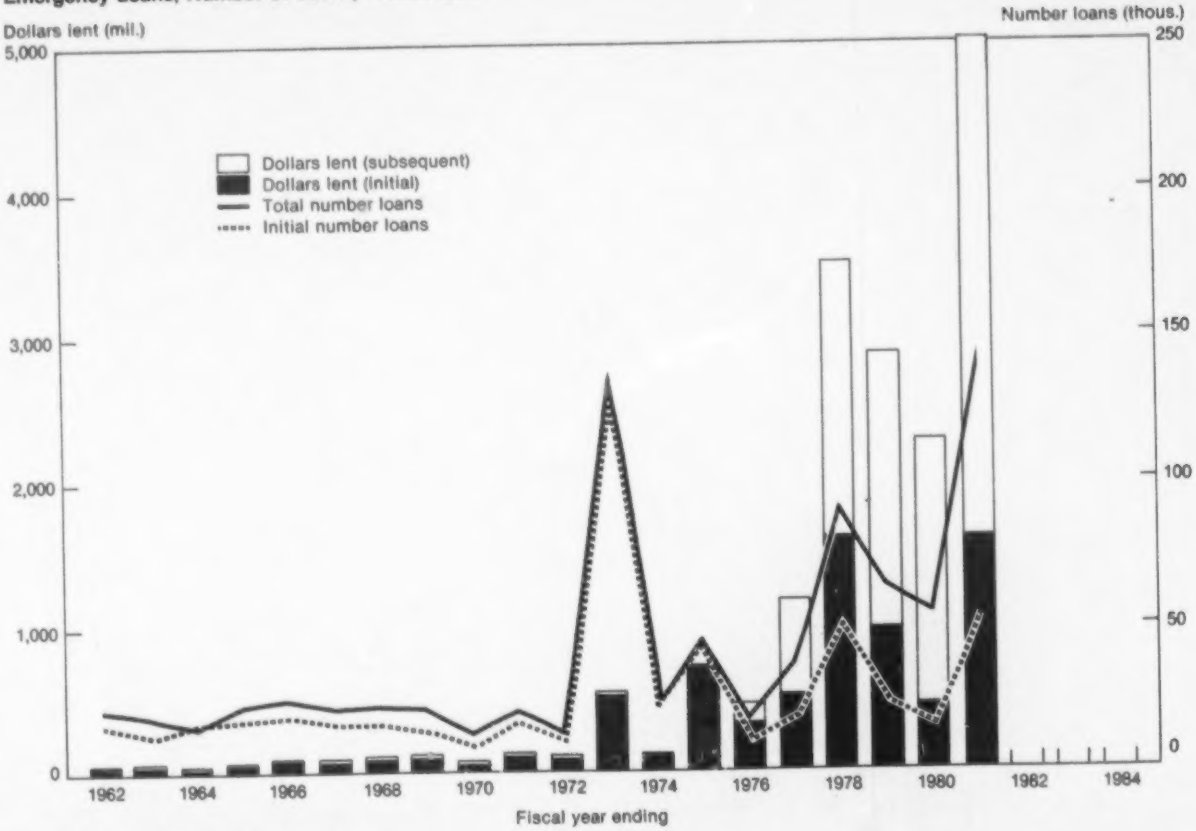
	Initial Loans		Subsequent Loans		Total Loans	
	Number	Amount	Number	Amount	Number	Amount
1962	24,378	$143,025,215	50,299	$131,974,785	74,677	$274,000,000
1963	23,770	149,776,720	54,222	150,223,280	77,992	300,000,000
1964	22,939	139,637,260	53,672	160,362,740	76,611	300,000,000
1965	24,127	146,510,340	48,470	153,489,660	72,597	300,000,000
1966	18,255	115,620,870	46,488	159,379,130	64,743	275,000,000
1967	18,893	131,918,850	46,006	168,081,150	64,899	300,000,000
1968	15,784	119,917,490	36,537	155,082,510	52,321	275,000,000
1969	16,234	127,094,340	34,577	147,905,630	50,811	274,999,970
1970	14,247	114,416,920	32,410	160,583,048	46,657	274,999,968
1971	13,635	125,499,360	28,545	149,500,631	42,180	274,999,991
1972	16,649	181,229,350	27,196	156,056,468	43,845	337,285,818
1973	19,172	237,329,750	31,808	217,314,627	50,980	454,644,377
1974	23,965	282,416,201	29,900	242,577,627	53,865	524,993,821
1975	20,560	302,266,678	28,694	248,520,072	49,254	550,786,750
1976	17,172	279,529,768	26,876	259,687,665	44,048	539,217,433
1977	15,709	283,770,260	24,830	258,573,030	40,539	542,343,290
1978	22,176	466,642,040	27,238	313,985,760	49,414	780,627,800
1979	19,079	552,541,730	18,863	342,212,170	37,942	894,753,900
1980	17,568	565,596,300	14,643	309,232,700	32,211	874,829,000
1981	18,157	605,727,550	11,681	241,875,810	29,838	847,603,360

* Includes Direct Loan Costs
Excludes Insured Loan Costs

(Table 7)

(Chart 8)

Emergency Loans, Number of Loans, Dollars Lent*



*Includes direct loan costs. Excludes insured loan cost.

EMERGENCY LOAN PROGRAM
Number of Loans and Dollars Lent*

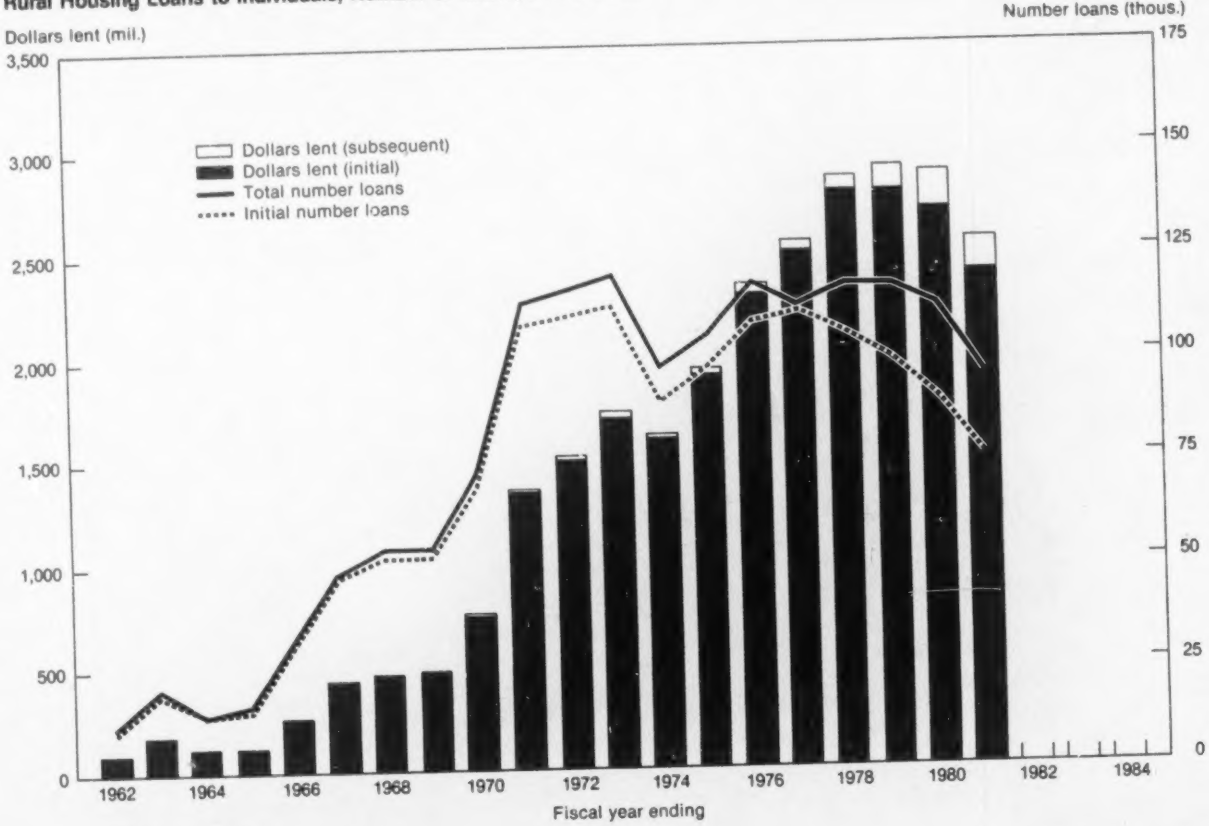
	Initial Loans		Subsequent Loans		Total Loans	
	Number	Amount	Number	Amount	Number	Amount
1962	16,107	$ 50,114,260	4,754	$ 13,225,816	20,861	$ 63,340,076
1963	13,447	45,421,785	5,897	17,057,454	19,344	62,479,239
1964	10,357	33,263,300	4,945	16,934,483	15,302	50,197,783
1965	16,743	60,183,375	5,547	18,263,786	22,290	78,447,161
1966	18,273	77,420,090	6,098	23,069,241	24,371	100,489,331
1967	15,765	66,425,255	6,409	28,197,013	22,174	94,622,268
1968	16,124	77,528,270	6,104	30,646,155	22,228	108,174,425
1969	13,509	75,427,940	7,177	39,288,213	20,686	114,716,153
1970	7,800	56,364,080	4,978	33,066,080	12,778	89,430,160
1971	16,025	101,216,425	3,779	26,419,481	19,804	127,635,906
1972	9,716	83,420,630	3,263	25,491,179	12,979	108,911,809
1973	124,783	527,727,353	3,884	30,039,242	128,667	557,766,595
1974	22,016	117,361,657	418	10,975,112	22,434	128,336,769
1975	42,976	722,263,783	699	12,756,754	43,675	735,020,537
1976	11,880	321,395,514	4,998	156,316,305	16,878	447,711,819
1977	16,666	515,709,080	19,103	662,678,900	35,769	1,178,387,980
1978	48,166	1,558,223,570	40,953	1,853,584,630	89,119	3,411,808,200
1979	24,838	970,026,080	38,075	1,901,615,680	62,913	2,871,641,760
1980	16,127	473,962,490	38,267	1,792,927,830	54,394	2,266,890,320
1981	51,871	1,550,820,070	87,119	3,561,470,360	138,990	5,112,290,430

* Includes Direct Loan Costs
Excludes Insured Loan Cost

(Table 8)

(Chart 9)

Rural Housing Loans to Individuals, Number of Loans, Dollars Lent*



*Includes direct loan costs. Excludes insured loan cost.

RURAL HOUSING 502 and 504 LOANS TO INDIVIDUALS
Number of Loans and Dollars Lent*

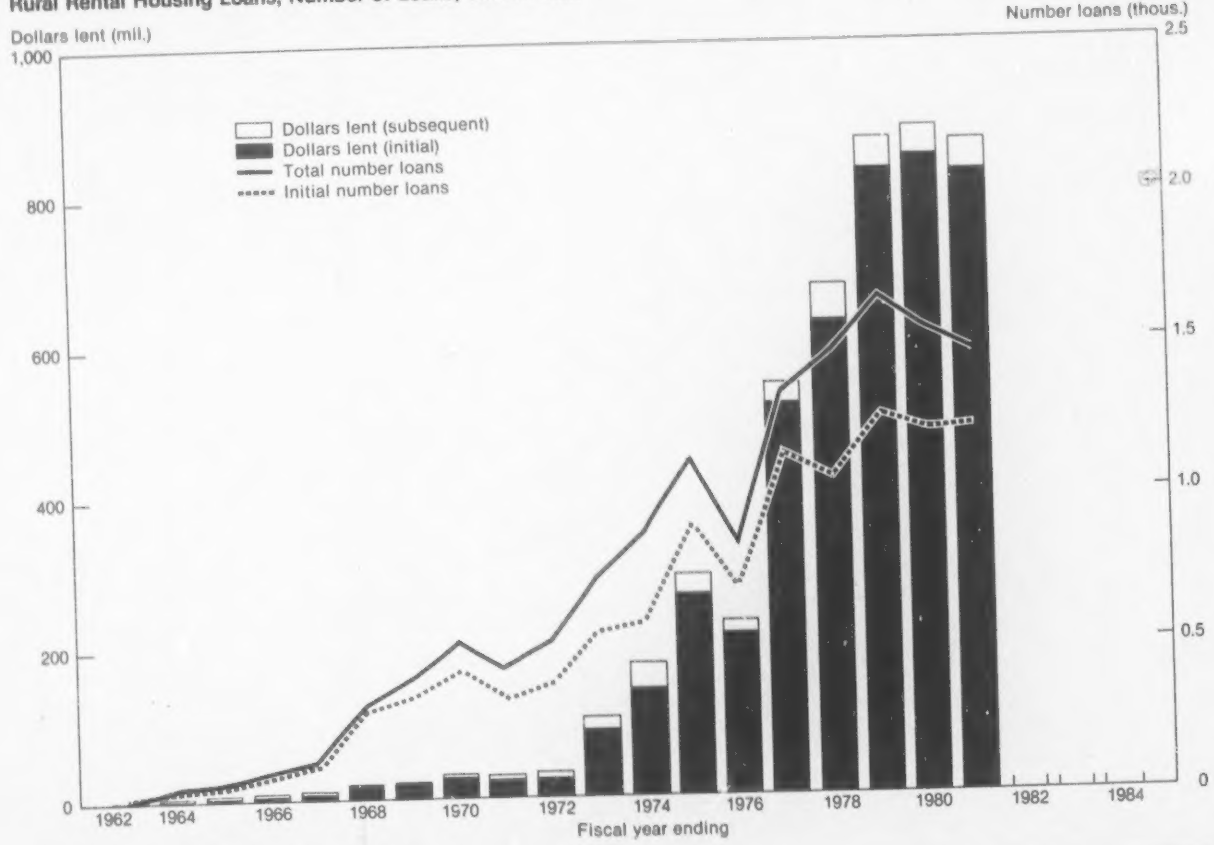
	Initial Loans		Subsequent Loans		Total Loans	
	Number	Amount	Number	Amount	Number	Amount
1962	10,706	$ 94,054,759	641	$ 2,321,193	11,347	$ 96,375,952
1963	19,164	184,265,722	694	2,106,004	19,858	186,371,726
1964	13,802	128,876,270	576	1,610,384	14,378	130,486,654
1965	15,177	129,343,600	591	1,632,387	15,768	130,975,987
1966	30,906	255,558,560	1,121	3,061,551	32,029	258,620,111
1967	46,879	425,604,835	1,558	4,527,934	48,437	430,132,769
1968	51,970	468,185,434	2,357	5,479,564	54,327	437,664,998
1969	51,560	480,363,630	2,878	5,857,314	54,438	486,220,944
1970	69,423	750,919,400	3,928	10,677,131	73,351	761,596,531
1971	108,188	1,353,830,290	5,276	13,937,662	113,464	1,376,767,952
1972	110,097	1,549,571,250	5,888	17,048,825	115,985	1,566,620,075
1973	111,779	1,712,380,440	8,004	27,875,832	119,783	1,740,256,272
1974	88,728	1,569,628,860	8,278	24,684,069	97,006	1,594,312,929
1975	96,688	1,903,281,940	8,382	28,169,930	105,070	1,931,451,870
1976	107,514	2,256,680,464	9,544	35,892,200	117,058	2,292,572,664
1977	110,543	2,528,014,600	11,534	48,612,460	122,136**	2,576,675,030**
1978	104,869	2,778,813,490	12,000	56,578,350	117,382**	2,703,242,438**
1979	98,987	2,778,813,490	17,423	114,040,970	117,206**	2,893,558,790**
1980	89,181	2,687,208,580	21,709	178,072,090	112,391**	2,866,530,690**
1981	75,002	2,446,551,790	18,212	160,648,300	94,895**	2,608,876,334**

* Includes Direct Loan Costs (Table 9)
Excludes Insured Loan Cost

** Includes 59 Weatherization Loans for 47,970 in FY 1977.
Includes 513 Weatherization Loans for 447,828 in FY 1978.
Includes 796 Weatherization Loans for 704,330 in FY 1979.
Includes 1,501 Weatherization Loans for 1,250,020 in FY 1980.
Includes 1,681 Weatherization Loans for 1,676,244 in FY 1981.

(Chart 10)

Rural Rental Housing Loans, Number of Loans, Dollars Lent*



*Includes direct loan costs. Excludes insured loan cost.

RURAL RENTAL HOUSING PROGRAM
Number of Loans and Dollars Lent*

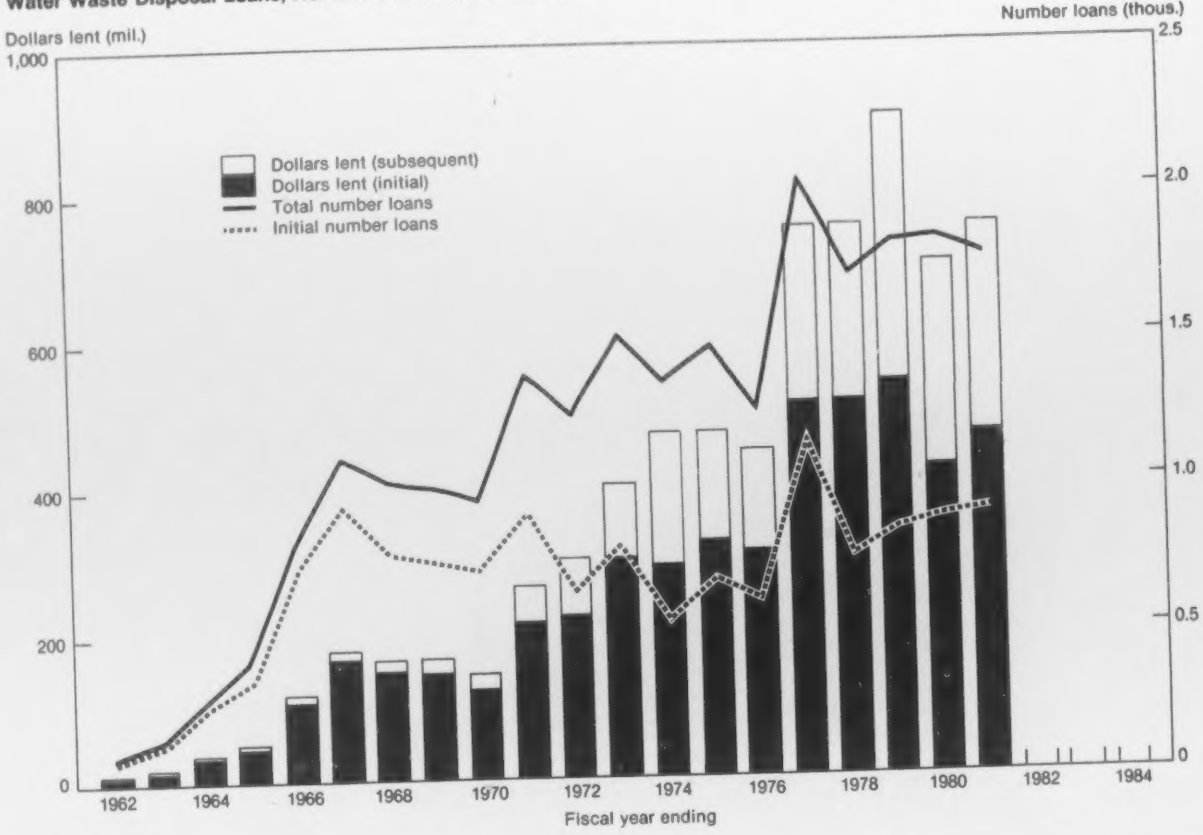
	Initial Loans		Subsequent Loans		Total Loans	
	Number	Amount	Number	Amount	Number	Amount
1963	2	117,000	—	--	2	117,000
1964	21	1,148,600	1	18,000	22	1,166,600
1965	32	1,787,530	3	230,000	35	2,017,530
1966	76	4,165,770	5	141,400	81	4,307,170
1967	99	5,314,350	11	175,380	110	5,489,730
1968	276	12,427,010	21	748,890	297	13,175,900
1969	329	15,351,280	61	1,983,220	390	17,334,500
1970	412	24,148,230	98	4,292,510	510	28,440,740
1971	325	21,012,400	97	5,776,290	422	26,788,690
1972	372	21,502,910	143	8,614,970	515	40,117,880
1973	546	87,886,880	184	17,175,750	730	105,062,630
1974	562	140,663,110	317	32,650,920	879	173,314,030
1975	903	267,036,590	205	25,319,750	1,153	292,356,340
1976	685	213,992,470	153	17,209,680	838	231,202,150
1977	1,114	518,017,210	222	26,936,970	1,336	544,954.180
1978	1,056	627,442,260	410	48,502,290	1,466	675,944,550
1979	1,247	827,894,470	398	41,614,090	1,645	869,508,560
1980	1,204	841,524,090	335	39,812,050	1,539	881,336,140
1981	1,213	825,921,420	253	38,843,810	1,466	864,765,230

* Includes Direct Loan Costs
Excludes Insured Loan Cost

(Table 10)

(Chart 11)

Water Waste Disposal Loans, Number of Loans, Dollars Lent*



*Includes loan costs.

WATER AND WASTE DISPOSAL LOAN PROGRAM
Number of Loans and Dollars Lent*

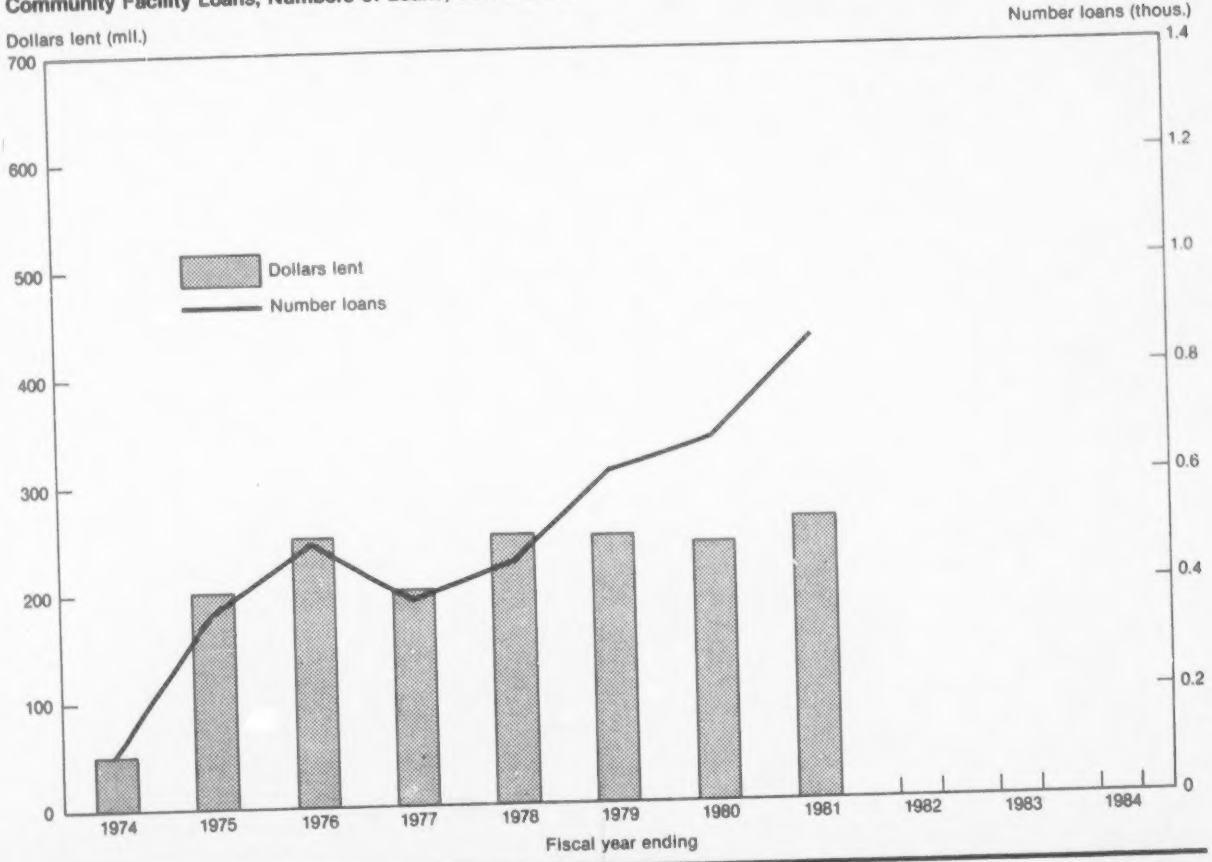
	Initial Loans		Subsequent Loans		Total Loans	
	Number	Amount	Number	Amount	Number	Amount
1962	69	$ 9,940,500	12	$ 230,500	81	$ 10,121,000
1963	114	13,876,565	21	864,130	135	14,740,695
1964	239	32,876,590	32	1,130,220	271	34,006,810
1965	324	47,982,510	70	2,406,970	394	50,389,480
1966	705	107,889,768	96	4,913,020	801	112,802,788
1967	915	165,206,014	174	9,967,165	1,089	175,173,179
1968	775	149,802,640	241	12,789,710	1,016	162,592,350
1969	739	147,036,310	242	17,610,850	981	164,647,160
1970	647	123,183,450	294	22,847,040	941	146,030,490
1971	899	213,092,800	468	48,611,100	1,367	261,703,900
1972	631	220,777,500	595	79,221,500	1,226	299,999,000
1973	768	300,182,500	734	99,812,300	1,502	399,994,800
1974	546	288,354,157	779	181,644,943	1,325	469,999,100
1975	658	320,188,646	793	149,798,300	1,451	469,986,946
1976	597	308,206,748	648	134,435,086	1,245	442,641,834
1977	1,097	508,238,060	951	240,612,370	2,048	748,850,430
1978	756	509,133,100	946	240,862,700	1,702	749,995,800
1979	823	537,351,830	979	362,648,090	1,802	899,999,920
1980	869	418,664,010	956	281,335,690	1,825	699,999,700
1981	892	466,061,480	876	283,938,500	1,768	749,999,980

* Includes Loan Costs.

(Table 11)

(Chart 12)

Community Facility Loans, Numbers of Loans, Dollars Lent



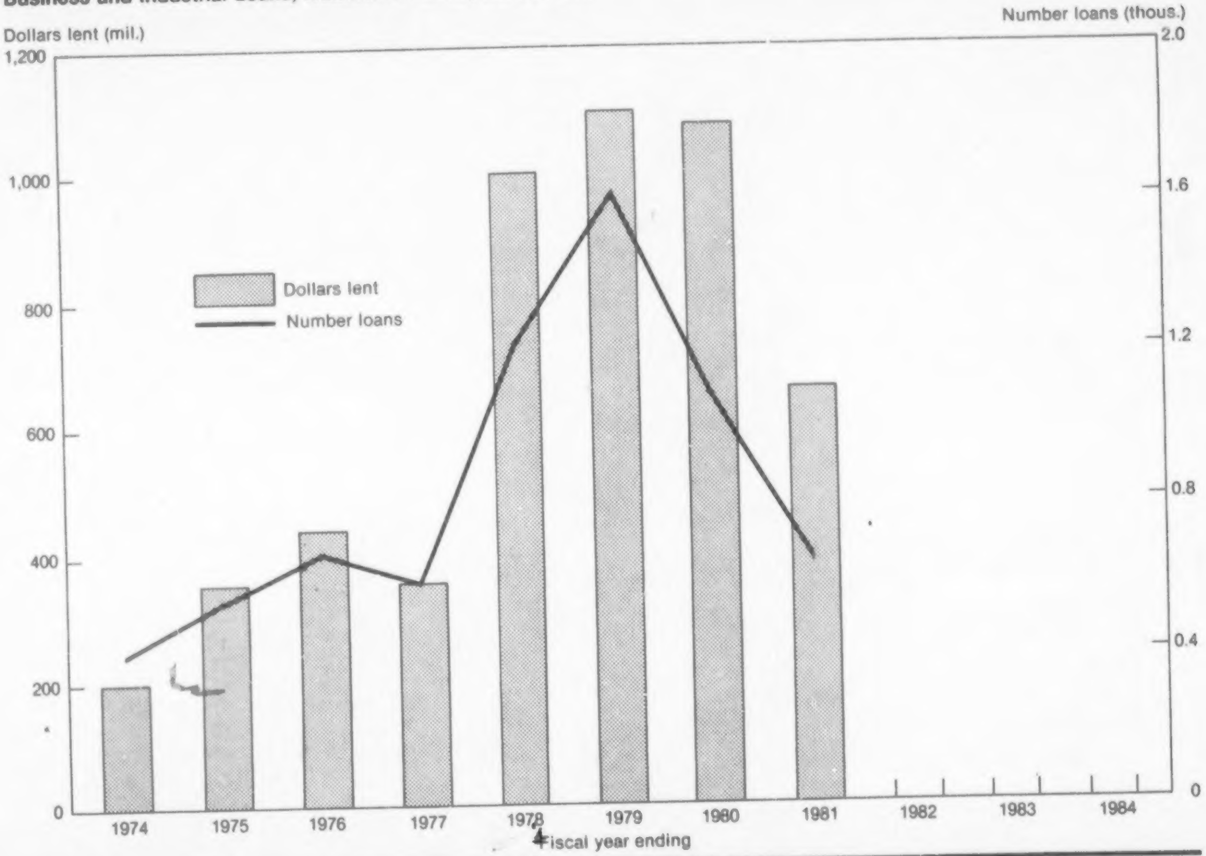
COMMUNITY FACILITY LOAN PROGRAM
TOTAL NUMBER OF LOANS and & DOLLARS LENT

Fiscal Year	Number	Amount
1974	102	$ 49,830,700
1975	359	199,998,000
1976 & T.Q.	485	249,995,600
1977	382	199,980,800
1978	447	249,997,000
1979	615	246,998,620
1980	674	240,000,000
1981	862	260,000,000

(Table 12)

(Chart (13))

Business and Industrial Loans, Number of Loans, Dollars Lent



BUSINESS AND INDUSTRIAL DEVELOPMENT LOAN PROGRAM
TOTAL NUMBER OF LOANS AND DOLLARS LENT

Fiscal Year	Number	Amount
1974	399	$ 199,980,545*
1975	538	349,994,173*
1976 & T.Q.	663	437,498,741*
1977	584	349,987,010*
1978	1,213	999,978,030*
1979	1,609	1,097,376,903**
1980	1,160	1,073,766,920***
1981	638	652,280,250***

* Amount obligated is based on total amounts shown on face of note for all guaranteed loans.

** Amount obligated based on 90% guarantee rate of the loan.

*** Amount obligated based on actual percentage of guarantee of total loan.

(Table 13)

FmHA State Office Locations

ALABAMA
Room 717 Aronov Building
474 South Court Street
Montgomery, Alabama 36104

ALASKA
Post Office Box 1289
Palmer, Alaska 99645

ARIZONA
Room 3433 Federal Building
230 North First Avenue
Phoenix, Arizona 85025

ARKANSAS
Rm. 5529 Federal Building
700 West Capitol, P.O. Box 2778
Little Rock, Arkansas 72203

CALIFORNIA
459 Cleveland Street
Woodland, California 95695

COLORADO
Room 231, #1 Diamond Plaza
2490 West 26th Avenue
Denver, Colorado 80211

DELAWARE, DISTRICT OF COLUMBIA, MARYLAND
Robscott Building
151 East Chestnut Hill Road,
Suite 2
Newark, Delaware 19713

FLORIDA
Room 212, Federal Building
401 S.E. 1st Avenue, P.O. Box 1088
Gainesville, Florida 32602

GEORGIA
Stephens Federal Building
355 East Hancock Avenue
Athens, Georgia 30601

HAWAII
345 Kekuanaoa Street
Hilo, Hawaii 96720

IDAHO
Room 429, Federal Building
304 N. Eighth Street
Boise, Idaho 83702

ILLINOIS
2106 W. Springfield Avenue
Champaign, Illinois 61820

INDIANA
Suite 1700
5610 Crawfordsville Road
Indianapolis, Indiana 46224

IOWA
Room 873, Federal Building
210 Walnut Street
Des Moines, Iowa 50309

KANSAS
Rm. 176, Federal Building
444 SE Quincy Street
Topeka, Kansas 66683

KENTUCKY
333 Waller Avenue
Lexington, Kentucky 40504

LOUISIANA
3727 Government Street
Alexandria, Louisiana 71301

MAINE
USDA Office Building
Orono, Maine 04473

MASSACHUSETTS, CONNECTICUT, RHODE ISLAND
451 West Street
Amherst, Massachusetts 01002

MICHIGAN
Room 209, Manly Miles Building
1405 South Harrison Road
East Lansing, Michigan 48823

MINNESOTA
252 Federal Office Building &
U.S. Courthouse, 316 North Robert Street
St. Paul, Minnesota 55101

MISSISSIPPI
Room 831, Federal Building
Jackson, Mississippi 39201

MISSOURI
555 Vandiver Drive
Columbia, Missouri 65201

MONTANA
Rm. 234, Federal Building
P.O. Box 850
Bozeman, Montana 59715

NEBRASKA
Room 308, Federal Building
100 Centennial Mall North
Lincoln, Nebraska 68508

NEW JERSEY
1 Vahlsing Center
Robbinsville, New Jersey 08691

NEW MEXICO
Room 3414, Federal Building
517 Gold Avenue, S.W.
Albuquerque, New Mexico 87102

NEW YORK, VIRGIN ISLANDS
Room 871
U.S. Courthouse & Federal Building
100 South Clinton Street
Syracuse, New York 13202

NORTH CAROLINA
Room 525
310 New Bern Avenue
Raleigh, North Carolina 27601

NORTH DAKOTA
Room 208, Federal Building
Third and Rosser, P.O. Box 1737
Bismarck, North Dakota 58502

OHIO
Federal Building, Room 507
200 North High Street
Columbus, Ohio 43215

OKLAHOMA
USDA Agricultural Center Bldg.
Stillwater, Oklahoma 74074

OREGON
Rm. 1590, Federal Building
1220 S.W. 3rd Avenue
Portland, Oregon 97204

PENNSYLVANIA
Federal Building, Room 728
228 Walnut Street
P.O. Box 905
Harrisburg, Pennsylvania 17108

PUERTO RICO
Rm. 623, Federal Building
Carlos Chardon Street
Hato Rey
San Juan, Puerto Rico 00918

SOUTH CAROLINA
Rm. 1007, Strom Thurmond Federal Building
1835 Assembly Street
Columbia, South Carolina 29201

SOUTH DAKOTA
Huron Federal Building
200 4th Street, S.W.
Room 308
Huron, South Dakota 57350

TENNESSEE
538 Federal Building and U.S. Court House
801 Broadway
Nashville, Tennessee 37203

TEXAS
Suite 102, Federal Building
101 South Main
Temple, Texas 76501

UTAH, NEVADA
Room 5434 Federal Building
125 South State Street
Salt Lake City, Utah 84138

VERMONT, NEW HAMPSHIRE
141 Main Street
Post Office Box 588
Montpelier, Vermont 05602

VIRGINIA
Room 8213, Federal Building
400 North Eighth Street, P.O. Box 10106
Richmond, Virginia 23240

WASHINGTON
Room 319, Federal Office Bldg.
301 Yakima Street
Wenatchee, Washington 98801

WEST VIRGINIA
Room 320, Federal Building
75 High Street
Morgantown, West Virginia 26505

WISCONSIN
Suite 209, 1st Financial Plaza
1257 Main Street
Stevens Point, Wisconsin 54481

WYOMING
Room 1005, Federal Building
100 East B Street
Casper, Wyoming 82601

NATIONAL OFFICE
U.S. Department of Agriculture
Farmers Home Administration
Washington, D.C. 20250

BIOGRAPHICAL SKETCH

FRANK W. NAYLOR, JR.

Frank W. Naylor, Jr., has been Under Secretary of Agriculture for Small Community and Rural Development since May 20, 1981. He exercises general supervision over the Farmers Home Administration, the Rural Electrification Administration, including the Rural Telephone Bank, and of the Office of Rural Development Policy. He serves on the Policy and Coordination Council of the Department of Agriculture, chaired by Secretary John Block, and provides policy leadership for the Department and coordinates inter-departmental policy in the area of small community and rural development.

Before accepting his present position, Mr. Naylor served since 1976 as Senior Vice President of the 11th Farm Credit District, Sacramento, California. In that post, he was responsible for administrative operations and services for three banking corporations that served a five-state area.

Frank Naylor first came to Washington in 1969 to join the U.S. Department of Agriculture as Deputy Administrator of the Federal Crop Insurance Corporation. In 1972, he moved to the U.S. Veterans Administration as Executive Assistant to the Administrator, where he developed management alternatives for the delivery of improved medical services and other benefits to veterans.

From 1973 to 1976, Mr. Naylor was Associate Administrator and Administrator of the Farmers Home Administration. His work involved managing a nationwide rural credit operation, including agricultural, mortgage, farm and community development loans.

Before coming to Washington, Mr. Naylor was Staff Manager for the Metropolitan Life Insurance Company in Kansas City, Missouri.

A native of Kansas, Mr. Naylor graduated from the University of Kansas, Lawrence, in 1961. He holds the Navy Commendation Medal, saw combat duty in Vietnam, and is a former national chairman of the Vietnam Veterans Committee. He has been active in the American Legion and several civic organizations, including the Chamber of Commerce.

Mr. Naylor and his wife Karen have two children.

CHARLES W. SHUMAN

Charles W. Shuman was appointed adminstrator of Farmers Home Administration by President Reagan in April 1981. Shuman, 46, operated a cattle and grain farm with two brothers in Sullivan, Illinois, and was a member of the investment brokerage firm of Blunt, Ellis & Loewi of Decatur, Illinois.

He served as Illinois State Director of Farmers Home from 1971 to September 1977. During that period, he also served temporarily as director of the agency's national finance office in St. Louis.

Shuman is a graduate of the University of Illinois with a degree in agriculture, and was a delegate to the Illinois constitutional convention of 1970.

He and his wife, Mary, have two daughters: Carol, a sophomore at the University of Illinois, and Linda, a high school student.

MICHAEL E. BRUNNER

Michael E. Brunner was appointed associate administrator of the Farmers Home Administration by Secretary of Agriculture John R. Block on December 14, 1981. He had served in the Department since April 1981 as a departmental legislative officer specializing in agricultural marketing and inspection services.

Before joining USDA, Mr. Brunner was director of congressional relations for the American Meat Institute in Washington, D.C. Previously he served as legislative assistant to Rep. Garry Brown (R.-Mich) from 1975 to 1977, and to Rep. Orval Hansen (R.-Idaho) from 1973 to 1975.

Mr. Brunner served on the audit staff of the certified public accounting firm of Ernst and Ernst in Denver Colo., from 1970 to 1972, then was assistant director of administrative services for the Education Commission of the States, also in Denver, in 1972 and 1973.

Mr. Brunner was born on January 26, 1943, in Cleveland, Ohio. He is a graduate of Bowling Green State University, Bowling Green, Ohio, where he received his bachelor of science and master of business administration degrees. He also earned a master of public administration degree at George Washington University, Washington, D.C., and served as an accounting instructor on the faculties of the University of Indiana and Bowling Green State University. During military service as an army captain in 1968 and 1969, he was detachment commander of a preventative medicine unit in Korat, Thailand.

Mr. Brunner and his wife, Elizabeth, live in Arlington, Va., with their twin sons, age 11. He is active in community affairs, serving as a member of the Arlington County School Board.

NEAL SOX JOHNSON

Neal Sox Johnson was named Acting Deputy Administrator for Program Operations of Farmers Home Administration in January 1982 after having served as executive assistant to the administrator since April 1981.

Johnson, 48, formerly lived in Arlington, Texas, where he was self-employed as a management consultant and real estate broker. He previously served with FmHA in Washington as executive assistant to the administrator from 1973 to 1977.

After graduation from Henderson State University in Arkadelphia, Ark., in 1955 and service in the army, Johnson worked as a design draftsman in Texas and taught high school math and science in Arkansas. In 1962, he returned to his hometown of Murfreesboro, Ark., to become a partner and general manager of C & J Construction Company. He started his own company in 1966, and sold it in 1971.

Johnson has been named in several editions of Who's Who in America for Universities and Colleges, Politics and Government. He and his wife, Carmen Louise, have three grown children.

INTRODUCTION OF ASSOCIATES

Senator **Cochran**. We invite you to introduce any colleagues who may be accompanying you. We are pleased to welcome you to the subcommittee.

Mr. Secretary, did you have any observations or comments you would like to make at this point? I hope you feel free to do so.

Mr. **Naylor**. Thank you very much Mr. Chairman. We are very pleased to have the opportunity to appear before your subcommittee and have always been most happy to work with this subcommittee in reviewing the budgetary and appropriations requests on behalf of the Farmers Home Administration, Rural Electrification Administration, and the Office of Rural Development Policy.

I don't have prepared remarks this morning. I am very pleased to have with me Charles Shuman, who is the Administrator of the Farmers Home Administration. I feel we are particularly fortunate within USDA to have a man with both his experience in the farm community and in managerial skills that he has demonstrated so ably in running such a complex organization as the Farmers Home Administration.

So without further comment, Mr. Chairman, if I may, I would like to ask Mr. Shuman to make the opening comments and introduce his colleagues.

RECOGNITION OF SENATOR MATTINGLY

Senator **Cochran**. Thank you, Mr. Secretary.

Before we get into a statement from Mr. Shuman, Senator Mattingly has other commitments this morning and has some questions he would like to put to the witnesses. So at this time, if you have no objection, and since we have made your statement a part of the record, I recognize Senator Mattingly for any comments or questions he might have.

ADMINISTRATION OF FMHA PROGRAMS

Senator **Mattingly**. Thank you, Mr. Chairman. It is good to see you this morning.

Having read some of your statements already, I would like to ask you just a few questions in reference to the Farmers Home Administration.

Your statement indicated a growth in lending of some $5 billion between 1981 and 1983. Recognizing the need to lower the level of Federal borrowing in the credit market as a tool to help lower the overall interest rates, how could you justify this continued increase?

Mr. **Shuman**. Senator, I am not sure of what increase you are referring to.

Senator **Mattingly**. The lending, I think it increased roughly $5 billion between 1981 and 1983.

Mr. **Shuman**. The total budget request of the agency for 1983 is less than the request in 1981. The increase that you must be referring to is the growth in our portfolio of total loans outstanding. This is the accumulation of the total loans we have made, minus collections. That figure has and we expect it will continue to grow in the years ahead, because we make loans for long terms and then collect the principal over their full term as is common in the industry.

Senator MATTINGLY. My office gets a lot of calls every day concerning the FmHA farm operating loan program. Really, they fall into basically two categories. There are those who complain that the program is not administered in the same fashion from one county to the next. Then there are the farmers who have managed to operate without FmHA loans and who are threatened by this unfair competition which has been created when the FmHA extends cheap credit not to the good farmers but to the less efficient operators. FmHA puts new operators into production of a commodity which is already in surplus, or establishes new people in the dairy business.

My question is, what steps are you taking or are you going to take to insure that FmHA requirements are equitably enforced according to the same standards in each and every county, and what steps do you plan to take or what steps does the Congress need to take to halt the absurd practice of encouraging an overproduction with these cheap loans?

Mr. SHUMAN. If I might respond to the question in two parts. First, there does occur, on occasion, differences in the way individual loan officers in various counties and various States may analyze, interpret and put into effect the rules and regulations. The way the Agency tries to deal with that problem, Senator, is through training and one-on-one counseling with those particular loan officers. I have appealed to not only the Congress, but also to farm organizations and other groups that work with the Farmers Home Administration to bring to our attention situations where we find these discrepancies. I have also asked our State Directors to continually monitor the activity of the loan officers in the various counties to identify where these discrepancies might occur.

FMHA LOANS FOR PRODUCTION OF SURPLUS CROPS

In regard to the second part of your question as to the type of lending that we provide that some might consider as being unfair competition to those who cannot receive the benefits of our more liberal credit terms, the Agency can only provide credit in the farming sector when that credit is not available through some other source. In addition, the Agency should not be considered to be a permanent source of credit. So when Farmers Home does make a loan as the lender of last resort in a certain case, it should only be viewed as temporary assistance to that particular farm operation, not a permanent source of credit.

The refinancing part of our operations we call graduation. When a farmer who has received our credit gets on his feet financially, so that he can meet the requirements of other lenders, then we ask him to move into the more conventional source of financing. We do not have rules and regulations at the present time which would prohibit the use of FmHA financing in the production of crops currently under surplus commodity programs. I am not sure, Senator, whether it would be entirely fair to have such a broad range prohibition of that type. We would be interested, though, in any suggestions you might have in considering the options that the Committee may have or the Congress may have in helping us find a way that we can deal with those kinds of situations.

Senator **Mattingly**. Well, knowing the amount of money that was in the different programs this past year and this year on the dairy industry, it doesn't seem to me that FmHA ought to be out putting people in the dairy business. Putting square pegs in square holes doesn't make any sense, does it?

Mr. **Shuman**. One of the problems—

Senator **Mattingly**. Yes or no? I want that answered.

Mr. **Shuman**. On the face of it, it does not seem to make much sense. However, there are some underlying things that would make it very difficult to have such a blanket prohibition. The commodity situation fluctuates, but it takes several years of hard work to build a viable farming operation. Say that 5 years ago, 3 years ago, before this problem became serious, we had helped a farmer phase into the dairy business. Let us suppose that we were about 2 years into that phase in and suddenly say to that gentleman, the plans we started with you 3 years ago we will not complete. I have problems with those situations.

Senator **Mattingly**. Like in cheese, are we going to build more warehouses to store the cheese and put the people in business? We can't get rid of it now.

You talk about training and counseling of those kinds of supervisors, and I am certain it does good in certain cases. But don't you think a thorough county-by-county investigation would be of assistance in trying to ferret out cases where the program is being mismanaged even at the county or district level?

ASSISTANCE OF THE INSPECTOR GENERAL

Mr. **Shuman**. If you mean a thorough investigation in some formal sense, like an Inspector General inquiry, I am not sure if the problems which have been brought to my attention indicate a level of seriousness of that magnitude. We have in the past, I think, been able to deal with any of those situations either through training, relocation, or other ways of dealing with the problem.

Senator **Mattingly**. I will try to get you some examples. I will probably try to mail you some Georgia newspapers; they will give you some examples, because they are there. I am not saying that the program is totally that way. There are inequities, and lending to a small number of people is giving the farming community and the lending agency a bad name. In order to rectify that, that is part of management.

Mr. **Naylor**. Senator, as you know, I have for many years felt that the Office of the Inspector General is a good management tool to be used and used effectively to help us do our job. We are more than willing, and I think we already have some of our Inspector General auditors looking at a few specific cases you brought to our attention. We would be pleased to do that on other cases where that may be appropriate.

In addition to that, we have an audit procedure in cooperation with the Office of the Inspector General which gives us an early alert to problem areas around the country. We have some cases that are in the process now of being completed. They will serve as tools for trying to correct the problems wherever they occur.

RURAL ELECTRIFICATION ADMINISTRATION

Senator MATTINGLY. In reference to REA, I have two quick questions.

Mr. NAYLOR. I would be pleased to try and answer those, and we do have Mr. Hunter in the room.

Senator MATTINGLY. What will be the impact on rural electric co-op consumers in the worst case if all new loans were made at the current cost of money?

Mr. NAYLOR. We have done some calculations on that. Of course, it would depend on their individual bonding rate or rating they may have and sources of funds. But it ranges from estimates of 50 basis points up to a few hundred basis points, and that depends on how heavily they are in debt. There are some alternatives in the proposal for reducing total loan guarantees which are for power supply facilities in the REA program, and these include the utilization of tax exempt bonds without Federal guarantee for the construction of pollution control facilities, which now amount to about 25 percent of a typical generation project. We are also advised that the commercial sector, either through the National Rural Utilities Cooperative Finance Corp. (CFC) or through the farm credit system, has the capacity to take about another 10 percent of their requirements with Federal guarantees. So it is our judgment in looking at this that there are legitimate competitive alternative sources that will more than meet the modifications that we have recommended in REA's budget on the guaranteed loan level.

Senator MATTINGLY. Isn't it true that if they went at the 14-percent rate, it would be a minimal amount per day that would make the consumers' rates go up?

Mr. NAYLOR. Senator, there would be some cases where that would be true. There would be other cases where you have an REA borrower that is highly leveraged or where the new money is a significant amount of its total borrowing. In these cases, it might have a more dramatic impact but not in the case of a very large cooperative that is borrowing a relatively little amount of new money.

Senator MATTTNGLY. The figure I have on residential is approximately 2 cents per day.

Mr. NAYLOR. In specific cases that might be true, but I can think of a few in more rural areas where if it was a large new loan in comparison to the prior debt, it might make quite a bit more difference than that.

Senator MATTINGLY. I thank you very much for allowing me to ask questions before your statement, and we will submit others to you in writing.

Thank you, Mr. Chairman.

Senator COCHRAN. Thank you very much for your contribution to the hearing.

Mr. Shuman, you may proceed to summarize or highlight any portion of your statement that you think would be helpful to the subcommittee.

HIGHLIGHTS OF FMHA BUDGET REQUEST

Mr. SHUMAN. Thank you, Mr. Chairman. I too appreciate the opportunity to be here and visit with you this morning and answer any questions that you may have.

Before I proceed with any kind of statement, I would like to introduce the staff I have with me and others from the Department of Agriculture that assist the Farmers Home Administration in the preparation of the budget.

First, I would like to introduce the Associate Administrator, Mr. Mike Brunner. Mike is sitting on Mr. Naylor's left. On his immediate left is Mr. Chuck Jewell, who is the Deputy Administrator for Financial and Administrative Operations. On the far end is Mr. Robert Sherman, the Department of Agriculture's Deputy Budget Officer. Sitting directly on my right is Mr. Jim Anderson, who is Acting Budget Officer of the Farmers Home Administration.

Briefly, I would like to cover just a few items in our budget that may be of particular interest to the subcommittee. We anticipate that our total loan portfolio will continue to increase during this fiscal year, so that by the end of 1982, we will have nearly $60 billion of loans outstanding under the authority and care and safe keeping of the Farmers Home Administration. That is an increase of some $5 billion over the portfolio at the end of the last fiscal year.

The total budget request of the agency is considerably less, as you pointed out in your opening remarks, Mr. Chairman, than what we had available in 1982. However, I think it is significant to note that the request for our regular farm-type programs is about the same in 1983 as it was in 1982. Another significant thing about the budget request is that our salary and expense dollars are not substantially higher in 1983 than that available for utilization in 1982. We do have some dramatic decreases that we are requesting in our housing programs, and also in our community facility program.

The principal thrust, Mr. Chairman, of this agency's budget request is to signal the direction that we should be going. This administration feels strongly that the most important role for Farmers Home and the mission which we should be concentrating our efforts on is supervised credit to agricultural producers.

And so with that, Mr. Chairman, I would complete my summary and be willing to respond to any questions that you may have.

AVAILABILITY OF OPERATING CREDIT

Senator COCHRAN. Thank you very much, Mr. Shuman.

We hear from farmers around the country continuing concern about the availability of credit this year to finance planning and conducting of their farming operations. What is your assessment of the availability of farm credit generally and the role that your operating loan and farm acquisition loan programs will play to help make available needed credit to America's farmers?

Mr. SHUMAN. As of this time, Mr. Chairman, the funds available for the Farmers Home Administration borrowers are adequate. We still have available ample operating loan funds and emergency loan funds to take care of our existing portfolio. The real estate loan program, or what we call our farm ownership loan program, is also adequately funded. We are, of course, concentrating now on processing the loans for farm operating type credit. We do think that we will have plenty of funds available, as I said earlier, to handle the needs of our existing borrowers.

Senator COCHRAN. We notice that the request that is before the committee reflects an increase of about $135 million for operating loans from $1,375 million in 1982 to $1,510 million for 1983; is that correct?

Mr. SHUMAN. Yes. You are taking into consideration there both our insured operating loans and our guaranteed operating loans.

Senator COCHRAN. That is correct.

Mr. SHUMAN. Yes, Mr. Chairman, that increase, accurately reflects the thrust of our budget request.

Senator COCHRAN. That is a substantial increase, I would say.

Mr. SHUMAN. We think that increase is justified so that we can continue to provide the operating credit for borrowers that we have now on our books, and also to take care of the needs of any additional farm operating loan borrowers that may not be able to meet the various requirements of other lenders in 1983.

Senator COCHRAN. And conversely, the real estate loans, or what I had referred to as acquisition loans, reflect a decrease from last year. We are not really encouraging people to get into the business, because it is so bad right now.

Mr. SHUMAN. I think it is important to note that that decrease in the budget is all in the guaranteed farm ownership loan area. We are dropping our guaranteed farm ownership loan request from $125 million in fiscal year 1982 to $75 million in fiscal year 1983. Our direct loans, so-called insured loans, are requested at exactly the same level as we have available in fiscal year 1982. The reason for the decrease in the guaranteed farm ownership loan program is that we have not been as successful as we had hoped in encouraging the participation by private lenders in that guaranteed program. We are going to continue to work toward that end and encourage other lenders to utilize that program. To this point anyway, we haven't been as successful as we had hoped.

OTHER FARM CREDIT SOURCES

Senator COCHRAN. I was told recently that the Federal intermediate credit bank is turning down some farmers who have applied for loans this year, because they can't project a profit in their farm operation. Because of low market prices that exist right now, it is difficult to work out on paper how many farmers are going to be able to have a successful operation this crop year. Do you have any knowledge about the policies or the extension of credit restraints that are in effect at the Federal intermediate credit bank or other PCA-type lenders?

Mr. SHUMAN. No; I would not be able to give you any specific information as to their policies. However, I can state, Mr. Chairman, that when the Secretary of Agriculture convened a meeting at the end of January in which representatives from all types of suppliers of agricultural credit met with him, he urged them to work with farmers during this period of rather tight profits and to help carry farmers through this rather difficult time. We have received very good cooperation from PCAs, land banks and commercial lenders in working with our borrowers. I could not give any information on what the policies might be from bank to bank and PCA to PCA.

Senator COCHRAN. For farmers who might have historically depended upon PCAs or other lenders for credit but who are being denied credit this year, is Farmers Home able to help take up that slack? Before you answer that, I have heard that Farmers Home is only making loans to those to whom they made loans in the past and that no new borrowers are being permitted to take advantage of Farmers Home operating loan programs.

Mr. SHUMAN. I have directed all of my State directors to use their time and resources to first take care of the needs of our existing borrowers. After the needs of our existing borrowers are dealt with, our next priority will be the processing of applications from individual farmers that have not been previously financed by Farmers Home Administration. There is absolutely nothing to prevent us from making operating credit available to these individuals. In many States right now, in fact the majority of the States, we have already taken care of the needs of our existing borrowers and are now in the process of examining the applications from these other new borrowers.

EXPEDITIOUS HANDLING OF LOAN APPLICATIONS

Senator COCHRAN. What is your assessment of the progress that is being made in the effort to expeditiously handle loan applications so that the funds are in the hands of the farmers when they have to have money to go ahead and do the preparation and the work necessary to put a crop in this year?

Mr. SHUMAN. I am very happy to report—I ought to really be shouting from the highest rafters of all these buildings.

Senator COCHRAN. We will do that. If the answer is good, we will tell them.

Mr. SHUMAN. We have proceeded a lot more expeditiously, if I can put it that way, in this year than we had last year. I think that is due to two reasons. No. 1, we have not had the total number of brand new applications coming in for emergency assistance. No. 2, we directed our field staff, back in the late fall, to encourage farmers to come in and apply for their loans early. We suggested that they should get it all done by the end of February. A substantial number of States completed the processing of all of their existing borrowers by the end of February. We are in a lot better shape right now than we have been in past years.

Senator COCHRAN. Well, that is really good news. I can recall in past years phone calls just flooding my office because of concerns and worries that money was hung up in St. Louis or someplace and that they couldn't get the paperwork done. There was a great deal of fear that a lot of farmers just weren't going to be able to put their crops in. So your answer is certainly a welcomed answer, and I want to congratulate you and the Farmers Home Administration on the fine job that you are doing to handle these loan applications.

Mr. SHUMAN. Thank you, Mr. Chairman. We are continually monitoring the situation. We occasionally find certain situations that suddenly pop up. We want to zero in on those situations and get the extra help in there to process the applications as quickly as possible. We want to get right on top of any problem areas that might be reported to members of this subcommittee.

Senator COCHRAN. There have been some concerns that because of constraints on the budget there might not be personnel available in the field offices to handle these loan applications. I have heard that there has been a good deal of shuffling of people to critical areas where you knew the volume of applications would be particularly high so that these applications could be handled, even though your offices appear to be understaffed for such a task. Has that been a successful operation, in your judgment?

Mr. SHUMAN. We are right in the middle of that operation right now. Many States have detailed people from one area of the State where the caseload may be light, say from high housing offices to high farmer-type caseload offices. We think that is a very good way to operate, because these people are experienced in Farmers Home Administration activities. One problem we have had in the past was that the details were for such a short duration that the new man or woman coming into the office did not have time to finish the processing of a particular application. We have suggested to State directors that details be authorized for a time period long enough for loan officers to become familiar with the area and complete the processing of the application. We think this will help, and we will not have some of the problems associated with that this year as we have had in past years.

As far as having personnel available, we have shifted some hours from one category to another within the budget of Farmers Home Administration, so that we have been able to give State directors what we think are adequate hours within the total staff year constraints.

FMHA LOAN DELINQUENCY

Senator COCHRAN. You mentioned that at the end of this year you were estimating $60 billion in your portfolio of farm loans. Could you tell us how much of this represents delinquent loans and what your assessment is of the economic health of farmers who have these loans outstanding with Farmers Home?

Mr. SHUMAN. Let me clarify one thing. Our total loan portfolio which we estimate will reach approximately $60 billion by the end is composed of all types of loans.

Senator COCHRAN. Not just farm operating loans or real estate loans?

Mr. SHUMAN. No; that would include all types of lending activity. At the beginning of 1982, our delinquency rate was higher by about 10 percentage points than it was the same time 1 year earlier. Obviously, this is of concern to the Farmers Home Administration, but the most important concern that we have is to find ways to deal with the problems of our individual farmers, homeowners, water and sewer system loan recipients, and business and industry guaranteed loan recipients. We need to work with them to find ways to deal with the problems that they have, so we can move the delinquent account status to a current account status. The delinquency rate is not so important, in my opinion, as our success rate. That has been high in the past, and we intend to continue to maintain that high success rate in the future.

Delinquencies do concern me. We are interested, vitally so, in helping farmers and homeowners find solutions, though, to the problems that cause those delinquencies.

Senator **COCHRAN**. Earlier this year and particularly last year, there were several rumors that went running through farm communities about the fact that the Farmers Home Administration had a new get-tough policy with farmers who were delinquent and that we were going to see massive foreclosures all over the country. What has been the policy about foreclosing these delinquent loans? How many have you foreclosed, say, recently as compared to previous years? Tell us what is happening there.

Mr. **SHUMAN**. I want to make it clear that the agency has said that our first priority is to supervise and service existing borrowers. Supervision and servicing does not mean foreclosure. Supervision and servicing means an increase in the 1-to-1 relationship between a county supervisor and the loan recipient so that the county supervisor can become aware early on of any problems that may be developing in that case and can work with the individual borrower in finding solutions to those problems. Most of these solutions, obviously, are associated with their operation or with their financial affairs. Our loan officers are trained and capable of providing that kind of financial counseling. We are insisting that this type of hands-on, one-on-one, across-the-kitchen-table-type servicing activity is emphasized throughout the agency. We are not undertaking any kind of an activity that will increase our foreclosures. In fact, we don't want to see foreclosures, because a foreclosure is a sign of failure. The agency wants successes not failures.

As far as the number of foreclosures is concerned, we are running about the same in this fiscal year as we had in the prior fiscal year. It is a little bit higher, but not dramatically so. The number of foreclosures is substantially below 1 percent of our caseload.

LOAN SERVICING POLICY

Senator **COCHRAN**. As I understand it, last year sometime Secretary Naylor put out a policy statement on behalf of the Secretary to all State directors of the Farmers Home Administration indicating that emphasis should be placed on trying to keep farmers in business and operating if there was any reasonable likelihood that they could come out of this recession or serious economic condition that confronts farmers. Is that policy being implemented, and if so, is it working to the extent that you think that, with Government assistance and staying with some of these farmers who have delinquent loan problems, we are going to see farmers working their way out of these heavy burdens of debt, or are we just prolonging the inevitable—closing down or foreclosing on farmers who just can't possibly make it? What is your assessment of that policy?

Mr. **NAYLOR**. Mr. Chairman, if I may just take a few moments, I would like to review our perspective on that and what our instructions are and how they are being carried out. The underlying strength of agriculture in terms of value and assets is still quite good overall in this country. Just a few weeks ago, the total value of farm assets passed the $1.2 trillion mark. All sources of farm lending, Farmers Home, the commercial credit sector, and the farm credit system, have a total of about $180 billion loaned against that $1.2 trillion of farm asset value. At the same time, however, there are a number of farmers throughout the country, and more specifically in some particular locations in the South, that despite this overall strength in equity position, are having a serious cash-flow problem because of a combination of adverse conditions related to inflation; high interest rates; in some areas, poor weather; and low commodity prices. There are those in some cases that are entering their third year of negative cashflow. These people need production type money and support not only from Farmers Home, but from the entire commercial lending industry. We believe we will be able to work most of them out of that problem. Steps have been taken by the Department to expand export activity. The President's economic recovery program is reducing the inflationary pressures on the cost-of-production capital and other farm inputs. We can look toward another 2, 3, or 4 percent drop in interest rates which would be very helpful and do a lot to return profitability back to farming.

In the interim, I feel we have a responsibility to help keep these farm producers in business. The Secretary has done something I don't believe has been done before, which is call the entire agricultural lending sector together and ask them to work as a team to use all the resources available to us. The Secretary has issued straightforward guidelines to Farmers Home. Any farmer who has worked with us in good faith, has protected his collateral, has followed good farming management practices, is willing to accept supervision and wants to stay in farming, will be fully supported by us to help him succeed. This might include amortization and deferment, rescheduling, and even carrying him delinquent as appropriate for the individual case. All those discretionary authorities are available to the agency, and the Secretary has said that they are to be used.

There is one other step we are undertaking that has been unusually successful this year. We have been working very closely with the farm credit system and with the commercial bankers. We have been doing something that has not really been done much in the past, and that is subordination of Farmers Home loan security to the commercial sector to encourage them to keep these customers and work with them. We have already, with another month left to go in the spring lending season, set an all-time record for those types of subordination agreements, and we are getting cooperation from the commercial sector.

This teamwork has held down the number of producers we have lost from farming. I would prefer that we not lose any that are genuinely in the business of farming, but we have lost a few. Just as some people don't do well as drug store operators or barbers, there are some not successful at farming. We will lose a few, but the number has been quite small. I think our efforts have been directed at keeping that number small and toward doing everything we can to help our producers be successful.

Senator COCHRAN. Thank you very much, Mr. Secretary.

We welcome Senator Burdick of North Dakota, who is a very valuable member of our subcommittee.

Senator, do you have any observations, comments, or instructions for our witnesses?

POLICY ON LOAN DELINQUENCY

Senator BURDICK. Thank you, Mr. Chairman. I don't know if I have any instructions, but I have a few questions.

Senator COCHRAN. Proceed.

Senator BURDICK. You just stated in response to a question by the Chairman that the foreclosures under the Farmers Home Administration are less than 1 percent. In my State I am informed that we have delinquent accounts in the amount of 2,126. I have also been advised that the State directors have been instructed to reduce the delinquency by 23 percent this month. Is that correct?

Mr. SHUMAN. Senator, what you are referring to, I think, is an administrative notice that I sent to all State directors last summer asking them to spend more of their time and energies on supervising and servicing our existing loan portfolio. One of the results of a good supervisory and servicing program is to see accounts that now are in a delinquency status moved to a current status. That August memorandum did establish for each State director a goal for moving accounts from a delinquent to a current status. Those goals were established not just for a farmer program type area, but for all areas. Those goals were established by the number of accounts, not by percentages, because I feel very strongly, Senator, that the agency should not deal in percentages, but with individual farmers. There was absolutely no intention of establishing any kind of a percentage reduction of delinquencies. What we wanted to do was to move individual borrowers from a delinquent status to a current status by dealing with those individual borrowers one-on-one to find out what their operating and financial problems were and to find a solution to those problems. Our goal is to help them become current and be more clearly on the way to success in their farming operation, their homeownership plans, or their water and sewer system. That memorandum was later summarized in a completely inappropriate way so that it appeared that our efforts to remove accounts from a delinquent status to a current status was, in fact, a proposal to eliminate those accounts. In my opinion, Senator, that was a great disservice not only to the Farmers Home Administration, but to the individual Farmers Home Administration loan officers out in each county of the United States who are working so hard to make farmers and homeowners successful. There was no intention that there would be any kind of a reduction in the number of farmers or homeowners or rural communities who borrow from Farmers Home Administration as a result of that memorandum. We did stress that we wanted to have successful operations and that we wanted to move borrowers from a delinquent status to a current status.

I would like to make a few more points on the subject of delinquency. We have not been able to find any direct correlation between the number of delinquencies that we have and the number of foreclosures. Delinquencies occur for many reasons. Many times a delinquent farm account is there, because prices don't look attractive in the fall of the year when the borrower orginally planned to market his commodity and, with the agreement of the Farmers Home Administration county supervisor, may have put those commodities under some type of government support program under which he was not able to collect full value. The borrower would use this partial payment to partially pay down his FmHA loan but would not be able to pay the full amount due.

Although the reported figures on loan delinquency look high, we must remember that any account that is past due for more than 15 days by an amount of $10 is considered a delinquent account. I suggest, sir, that that is a very strict test.

Another point I want to make regarding our delinquencies is that county supervisors have the authority, and are utilizing the authority, to carry some accounts in a delinquent status. Even though it shows up on the books as a delinquent account, that loan officer knows that that farmer has found the solutions to his problems and will eventually be successful. I have said to State directors, district directors, and county supervisors that I have no concern of his loan being delinquent for the life of the loan if that county supervisor and farmer have worked out a solution to that problem and we know that that farmer is going to have a successful operation.

That would conclude my response to that inquiry.

REAMORTIZATION AND RESCHEDULING

Senator BURDICK. What you are saying then is that many of the delinquent accounts are moved into a current status. What really happened is you reconstituted the debt, because you figured there is enough security for it. Is that how you did it?

Mr. SHUMAN. You mean how a delinquent account moved into current status?

Senator BURDICK. Yes.

Mr. SHUMAN. There can be several ways. One obvious way is for the borrower to make payments in the amount of the delinquency. Another obvious way would be rescheduling or reamortizing of the account within our authority.

Senator BURDICK. Within the security, too.

Mr. SHUMAN. Oh, yes. We have several ways that this can be accomplished. Many times the account is brought current in our housing program by utilization of what we call a supplementary payment agreement, where the individual borrower agrees to make an additional payment of so much extra per month over a period of time so as to bring that account current. So all of these tools are utilized. But, of course, the most important thing that the county supervisor has to do in conference and consultation with the borrower is find out what caused the delinquency to occur and then come up with a solution to the delinquency.

Senator **Burdick**. When a loan is rewritten, is it rewritten at the original interest rate or the current interest rate?

Mr. **Shuman**. Our current requirements are that that note be rewritten at the present terms. We are taking a look now at instructions to see whether we could allow it to be written at whatever the terms and conditions are of the existing note mortgage. But the rewriting, sir, if I might point out, may or may not be the solution to the problem. In many instances, the solution to the problem could be to continue to carry the account in a delinquent status so that there would not have to be a big payment at the end of the account or a larger amortized payment each year. The solution may be to carry that account delinquent for a number of years, which we are willing to do if that is the best solution.

Senator **Burdick**. In other words, when the loan is rewritten, the interest rate would be the current interest rate on the whole debt.

Mr. **Shuman**. That is in our present instructions.

Senator **Burdick**. You say that the foreclosures are less than 1 percent.

Mr. **Shuman**. Considerably less than 1 percent.

Senator **Burdick**. All right, considerably less than 1 percent.

Mr. **Shuman**. We have a little under 300,000 farm-type borrowers. Our foreclosures are about 300.

Senator **Burdick**. Well, we lawyers know there are other ways of foreclosing when a farmer is in trouble. Sometimes you don't have to go through the process; you say here are the keys. Are you taking those into consideration?

Mr. **Shuman**. Yes, sir.

Senator **Burdick**. That is even less than 1 percent where the farmer surrenders his title?

Mr. **Shuman**. Substantially less. It is one-tenth of 1 percent, about 300 of those compared to a little under 300,000 borrowers.

Senator **Burdick**. Well, I certainly hope you will, as you stated, maintain the policy toward these lenders at this particular time, because they are in difficulty you know.

Mr. **Shuman**. I certainly recognize that, Senator.

FORECLOSURE ACTIONS IN NORTH DAKOTA

Senator **Burdick**. I wonder if you would supply to my office within a reasonable time the following information, if it isn't too cumbersome: the names and addresses of all borrowers who are undergoing foreclosure in North Dakota.

Mr. **Shuman**. Just in North Dakota.

Senator **Burdick**. I will make it easy.

Mr. **Shuman**. Senator, I might interject here. I have told my district directors that I want them to know by name every one of the problem cases.

Senator **Burdick**. Those who have sold out during the past year. Do you ever send any letters to them suggesting that they quit?

Mr. **Shuman**. In our effort to provide good, sound financial management advice to an individual farmer, I have suggested to State directors and district directors that where they find situations where experience and the facts of the individual case indicate that that operation has no reasonable chance for success, we have a responsibility to bring to the attention of those individual farmers their exact situation. Now, we don't say, and should not say without any compassion, "you should go out of business," but we should point out to them their deteriorating financial condition and suggest that they may want to look for other ways in which to provide the resources they need for their family.

Senator BURDICK. My staff has advised me that 642 farmers in North Dakota have received that kind of a letter between October 1, 1981, and January 31, 1982.

Mr. SHUMAN. Senator, they must be referring to our general servicing letter. It can be utilized for a number of servicing activities. One of the early statements in that letter indicates to that borrower that we are willing to finance them for the present fiscal year.

Senator BURDICK. Would be so kind as to send me the names of those who have been foreclosed.

Mr. NAYLOR. Senator, we might also provide for you the servicing letters that are currently being used. I think that might be of interest to you.

Senator BURDICK. If you could also give me a list of those who ceased to be borrowers, who quit, or otherwise went out of business in the past year.

Mr. SHUMAN. When you say they quit or were foreclosed, Senator, it may mean that they left our loan rolls for any of several reasons. For example, we have a requirement that a farmer, as I indicated earlier in my testimony, move to other sources of credit when he can do so. Our programs were not intended as a permanent source of credit. Many farmers who we have asked to graduate because their operations have developed have said, well, it is going to take me a while to find credit from other sources. Then they may walk in and pay off all their indebtedness to us immediately when they obtain credit from the regular lenders, and we would not know the source of those funds. We have those kind of payouts, and we are not able to identify the sources of funds. Some of those individuals may have quit or sold their operation to a son or transferred it. So, we will provide you the best information we have available.

Senator BURDICK. I understand there may be some that inherit farms and pay off the indebtedness, but I think that is the minority.

Mr. SHUMAN. It happens. I just wanted to point out that it happens.

Senator BURDICK. I understand.

Mr. NAYLOR. Senator, we do have, as you know, an aggressive policy for those producers who are in a financial position to do so to graduate to commercial credit either in the farm credit system or commercial banking. Unfortunately, the way data is collected within the Agency, we may not be able to identify the reason why a borrower left FmHA rolls. We can report on foreclosures and then liquidations, which covers all the other reasons.

TERMINATION OF LIMITED RESOURCE LOAN PROGRAM

Senator BURDICK. Thank you very much.

I just have one more question that is a little elaborate.

The fiscal year 1983 budget says that the fiscal year 1983 farm loan program proposals reflect a shift in funding emphasis from emergency loans to reassuring farm ownership and farm operating loans. Under both programs, additional emphasis will be given to assist young farmers. The next paragraph states, in which the farm loan program is being talked about, and I am quoting, "The borrower is charged not more than the cost-of-money interest rate for insured loans except for low income, limited resource borrowers who currently might be charged at low interest rate." Two sentences later the emphasis is on low income limited resource farmers and seems contradicted by the statement that the budget proposes to adjust the interest rate in the program, so that all borrowers would be charged interest based on the cost of money.

Now is that an inconsistency or can you explain that? First, you say there may be some consideration to young farmers, and then you say all will be charged at the same cost of money.

Mr. SHUMAN. You are reading from my statement?

Senator BURDICK. From the budget. It seems to be contradictory. It looks like you are trying to give a lower rate to young farmers. Then, the way the budget statement winds up, it looks like all borrowers are charged the same interest rate based on cost of money. Is there any exception for young farmers?

Mr. SHUMAN. At the present time, we do have a limited resource program which is not specifically oriented toward young farmers but to any applicants whose resources are limited. In the 1983 budget proposal, we are asking the Congress to remove the authorization for that interest differentiation. We feel that we can continue to serve the needs of limited resource borrowers through our regular program and by increasing the emphasis on supervision and servicing for those recipients.

Senator BURDICK. Are you saying, then, that there is no differentiation in the interest rate?

Mr. SHUMAN. At the present time there is.

Senator BURDICK. I mean as recommended.

Mr. SHUMAN. The 1983 budget asks that there be no differentiation as far as interest rates are concerned.

Senator BURDICK. Is there any rationale for doing that? We are trying to help the young beginning farmer.

Mr. SHUMAN. Well, as I indicated, the limited resource program is not oriented directly toward young farmers; although obviously, many young farmers find themselves with limited resources. We have established a pilot program that we hope will be successful and that does deal more directly with the needs of farmers who want to become full-time farmers, many of whom are young. We hope that will be a successful operation that we can utilize to provide the needs of farmers who want to become full-time operators.

CEILING FOR EMERGENCY DISASTER LOANS

Senator BURDICK. I didn't see this question, but I have one more. I note in your budget justification material that you are recommending a ceiling of $1.5 billion for emergency insured and guaranteed loans to meet the needs resulting from natural disasters.

Since we humans have little control over natural disaster, what will happen if the cost of the disaster exceeds the ceiling of $1.5 billion?

Mr. NAYLOR. Senator, if I may, I might respond to that. Two things were involved in that. First, as you know, currently the disaster loan program is an open-ended program which doesn't receive additional oversight regardless of how much we spend or how well we spend it. It was our feeling within the administration that Congress historically has been able to act quickly under emergency conditions and that it might be better for there to be congressional oversight rather than simply leaving it wide open. The other factor that was a major consideration, is the expectation that the Federal crop insurance program will begin to function, as we hope it will, and will serve ultimately as a replacement for other disaster programs. At some point in the next year to 18 months, depending on the progress of the crop insurance program, we will be talking to the Congress about a phaseout of the emergency disaster program where crop insurance is fully available and being properly used.

Senator BURDICK. Thank you, Mr. Chairman.

SOIL CONSERVATION LOANS

Senator COCHRAN. Thank you, Senator.

I notice that in the budget request there is a proposal to eliminate the soil conservation loan program. There is considerable concern throughout the country about our continued problems with soil erosion and an interest in developing a workable, effective program to help combat soil erosion problems. Some parts of the country are losing substantial amounts of topsoil to erosion each year. I wonder whether or not the request for elimination of this program is consistent with the problems that exist for landowners and farmowners. How will this request, if the committee approves it, affect that serious problem? Will it make it worse?

Mr. SHUMAN. There are two reasons for that, Mr. Chairman. First, those two programs are tied in with specific Soil Conservation Service programs. Second, the use of the program in past years has been very minimal. You might note that 1981 actual usage for the resource conservation and development loan program was only $1,965,000 despite the fact that substantially more than that was budgeted. We have authorized in 1982 up to $4 million. We do not anticipate utilizing near all of those funds. The same is true for the watershed and flood prevention loans. We feel that there is adequate incentive for producers to go ahead and put these structures in and, as I said, they are tied with the changes in the way that the Soil Conservation Service is proceeding with this type of program.

ECONOMIC EMERGENCY LOANS

Senator COCHRAN. In connection with farm loans, I notice that you have not requested any funds for the economic emergency loan program.

Mr. SHUMAN. That is correct, Mr. Chairman.

Mr. NAYLOR. Mr. Chairman, by law that program expires at the end of this fiscal year.

Senator COCHRAN. So in 1983 you don't have authority for the program.

Mr. NAYLOR. There is no legislative authority beyond September 30, 1982.

Senator COCHRAN. What about this year? Didn't we authorize this loan program in the farm bill we passed last year? What is the status of the loan program? Are any economic emergency loans being made this year?

Mr. NAYLOR. Mr. Chairman, there was some $600 million authority on a discretionary basis put in the farm bill. The Secretary has issued and, I think, forwarded to members of this subcommittee and other Members of Congress, the guidelines he would use in making the determination of whether the activation of that program is appropriate. Regulations are being prepared to implement those guidelines. I think the answer to your question is basically that at this point in time we have all of the disaster lending authority that we need. It has been made available to us in our regular emergency disaster loan program and, in addition, we have almost $1 billion of farm operating loan money still available to us. We do not have, at this point, any shortage of funds to meet farm loan demands.

Senator COCHRAN. As I recall our debate and discussion when we were marking up the farm bill, these loans are designed to assist farmers who are confronted with a serious economic disaster. Is it your assessment, then, that there are no farmers confronted by economic emergency out in the countryside today?

Mr. NAYLOR. Our operating loan program, which really addresses the same type of problem, and our emergency disaster loan program, which also addresses similar situations, are being utilized. They are meeting that need currently. We have a very substantial and adequate amount of funds, in our judgment, to meet those needs of individual producers who are facing that kind of problem and are not able to get their needed credit from other sources.

Senator COCHRAN. I am glad to see the Secretary is moving forward in development of guidelines and regulations to implement the program. We look forward to seeing what those guidelines are and will be working with the Department to help assure that whatever appropriations may be necessary or authority may be necessary are made available to help support that program.

EMERGENCY DISASTER LOANS

We notice that you are requesting a reduction of $60 million in the emergency disaster loan funding. Is the rationale for this reduction the same as you have stated, that adequate lending authority is available from other programs to meet the needs that are designed to be served by the emergency disaster loan program?

Mr. NAYLOR. No, Mr. Chairman, not exactly. As you know, the emergency disaster loan authority is a discretionary authority. It is proposed as a cap for 1983 in anticipation that it may well be appropriate for the Appropriations Committee to have oversight and make the decision when additional funds are needed. In addition to that, we expect the Federal crop insurance program to be coming on line and fully implemented during that time frame. As that occurs, and we believe it will be successful, we anticipate proposing legislation which would lead to the phasing out of other disaster assistance-type programs where the crop insurance program is in place and is working.

BUDGET REQUEST FOR RURAL HOUSING

Senator COCHRAN. In looking at the housing programs where most of the funding reductions seem to be proposed, I worry that if the subcommittee approves these recommendations, there are going to be a lot of low-income residents of our rural areas who are just not going to have any Government assistance available to them to help finance housing construction, and that this is going to create a very serious hardship. How is the administration justifying the substantial reductions in financing under Farmers Home housing programs?

Mr. SHUMAN. Mr. Chairman, Farmers Home Administration, in our opinion, should not be considered the only supplier of credit for housing purposes in rural areas. We hope that there will be other suppliers of credit that will move into and increase their level of operations in rural areas as interest rates drop and as the economy improves. Mr. Chairman, we are going to be directing the focus of our housing programs even more toward the truly rural and smaller communities that are in need of this kind of credit. We feel that the $900 million that we are requesting will be adequate to handle the needs of the truly rural communities.

Senator COCHRAN. Last year we ended up approving a 13-percent reduction, as I recall, in these loan programs. Now this year, we are being asked to approve reductions which are significantly more dramatic. For instance, the section 502 single-family, low-income program under the proposal that you submitted would be cut by 61 percent, and the section 502 moderate-income program would be completely eliminated. Rental programs would be substantially cut back as well—the section 515 rental program cut by 79 percent, the rural rental assistance program by 54 percent. The fiscal year 1982 estimate indicates that 108,600 new units would be built. The fiscal year 1983 proposal would result in only 25,840 new units, which represents a reduction of 67 percent.

FMHA HOUSING LOANS IN COMMUNITIES OF 10,000 TO 20,000

It may very well be the hope that there would be other lending institutions who would be able to take up the slack, but that may be just wishful thinking. I have been told that 95 percent of the construction in rural areas in my State alone is financed under the 502 low-income housing program of the Farmers Home Administration. As a matter of fact, when it was publicized that towns falling between the 10,000 and 20,000 population category would be eliminated from eligibility to participate in Farmers Home Administration housing programs, we found out that a substantial number of communities just in my State alone would be ineligible for the program. Fortunately, the Secretary of Housing and Urban Development, who was charged under the law to make an assessment of the availability of credit in those small town areas, came up with the information, and I will read from a letter he wrote on March 18, 1982, to the Secretary of Agriculture. I am quoting:

> I have determined that, in my judgment, at this time a serious lack of mortgage credit does exist for this category of communities. Based on this determination, it is requested that the Farmers Home Administration, as provided in Section 502 of the Housing Act of 1949, continue to serve the above-referenced cities after March 31, 1982.

The reason I mention that is that the suggestion that there may be credit available out there if the Farmers Home Administration program is cut back or discontinued, doesn't seem to be consistent with the findings of the Secretary of Housing and Urban Development. I wonder if you have any evidence or information that may not have been available to the Secretary of HUD that you could share with the subcommittee to help us make a decision about funding these programs?

Mr. NAYLOR. Mr. Chairman, if I might respond to that.

As you noted, the Secretary of HUD is charged with the responsibility of determining whether or not credit is generally available. If credit is determined to be generally available, then HUD assumes responsibility for communities of that category. We were advised last September 25 that it was their judgment that there would be and was adequate credit available, and beginning March 31, 1982, therefore, HUD would assume the responsibility for housing programs in those size communities above 10,000 population.

Subsequently, as you are aware, the economic recovery has not developed as rapidly as expected. Therefore, Secretary Block requested Secretary Pierce to reassess the current situation and the speed with which the recovery is developing in the housing industry. He determined that there was not yet adequate credit available in those communities and asked us in the Department of Agriculture to continue with that responsibility. Further, the President has asked Secretary Pierce to head up a special Cabinet council to deal with the immediate problems of the housing industry. Secretary Block is a member of that group. The President expects to receive their recommendations within a matter of days. In the interim, we continue to maintain for fiscal 1982 a program level commensurate with that we had in 1981. The expected changes are proposed for the fiscal year 1983 budget commencing next fall and really going into the following building season. It is expected that the recommendations of the President's special housing group, as well as the work being done by Secretary Pierce, Secretary Block, and others, will rely substantially on the private sector and perhaps State housing authorities. The economic recovery program will be well underway, and greater utilization of the private sector will be possible. This will permit, to some degree, the pull back of the level of activity of the Federal Government across the board, not only in our area but in HUD also.

We are proposing significant revisions in that our area of concentration ought to be the most rural areas where the delivery mechanism of mortgage credit is not in place. As you know, there are a number of counties, some in your State, that simply do not have thrift or mortgage institutions. It is these communities which most need our program assistance, and, I think, will continue to be able to serve in this role.

Senator COCHRAN. Well, it doesn't appear to me that the level of support is going to be large enough to really help assure the meeting of housing needs in rural America, particularly among low income people. This is a program that provides assistance to those who earn less than $11,500 a year. I am referring to the 502 Farmers Home Administration low-income program, and that is the program that, according to my information, is of greatest importance in the poor areas of the country. Under the moderate-income program, while it does provide benefits that are significant in some areas, but with the rate of interest at 13.25 percent now and an earning ceiling of $17,000, a person would end up having a monthly mortgage payment of about $400 a month. Most people in that category are just not taking advantage of that program, and that really is not as critical a need, according to my information, as the low-income housing program might be.

Well, we are going to be looking at the suggestions that you have made and will try to come up with an appropriate response to this budget request. But, frankly, I am worried that the administration is not sensitive enough in this budget request to the needs of low-income people for housing assistance. There is no HUD program that is going to take the place of the Farmers Home Administration program. With the interest rate situation the way it is right now, the need for a housing program is very obvious.

As I understand the Secretary's position with respect to the areas of 10,000 to 20,000 people, the housing assistance programs of Farmers Home Administration will continue to be available in these areas even though this authority was due to expire March 31. That is the information I have.

Mr. NAYLOR. Mr. Chairman, that is correct. Secretary Pierce, in conference with Secretary Block and myself, reviewed the situation and made the determination that credit was not yet available as had been expected. He asked us to continue indefinitely in those communities.

INTEREST RECAPTURE

Senator COCHRAN. I am told, too, that the Farmers Home Administration housing programs are much less costly than HUD housing programs—20 percent less was the information that was recently given to me in my office by a group of rural homebuilders who were very concerned about the program.

Another point that they made, and I will ask you about your reaction to it, was that 86 percent of the interest subsidies are recaptured in this program. If that is true, it sounds like this is not a giveaway program, that some funds are recaptured; these loans are repaid, and those funds come back into the Treasury. What is your reaction to that?

Mr. NAYLOR. Mr. Chairman, that is a relatively new provision. Frankly, I have to say the former administration made guesstimates that recapture would be in the 70- to 80-percent range. I would have to report to you that at this juncture we don't know what our experience will be under this provision. We do not have the experience yet to know what the recapture may actually wind up being. It may be substantially less than that, depending on a wide range of factors.

HOUSING CONSTRUCTION SLUMP AND UNEMPLOYMENT

Senator **Cochran**. We are all worried about the high unemployment rate that we have right now. If we, in effect, shut down housing construction in rural areas for low-income people, we are probably going to be contributing even more to the loss of jobs out there in the country. I am told that construction of 100,000 housing units would create 200,000 man-years of employment and would bring in $1 billion of revenue from direct taxes to the Treasury as a result of that employment activity.

Mr. **Naylor**. Mr. Chairman, as we have discussed, the President has asked Secretary Pierce to head a special Cabinet council which is expected to provide a report to the President shortly. I have been participating in that working group. We are very much concerned about the recovery in the housing industry and are looking at a wide range of options. I think we are putting proper emphasis on looking for private-sector initiatives and opportunities. At the same time, however, we are reviewing the Government programs. I would expect some new proposals will be forthcoming from the administration as a result of that review. As I indicated earlier, we recognize the need to continue our operations this year, and our 1982 program levels are approximately the same operational levels as we had last year. The proposed changes in the fiscal year 1983 budget really anticipate a significant recovery and an improved housing industry situation and additional private and State involvement in the 1983 building season.

PROGRAM OBLIGATION RATE

Senator **Cochran**. The housing programs this year that are being administered by the Farmers Home Administration seem to be using funds at levels that are much below what you might consider accurate estimates. For instance, in the 502 subsidized housing program, I understand that Farmers Home has obligated only about $539 million. We are almost halfway through the fiscal year, and this is a $2-billion program. It would seem we would have used almost half of the amount available, but it looks like only about a fourth of the amount available has been utilized. Is Farmers Home intentionally withholding funds from this program during this period of time when home building is slow anyway, or are you contributing to that problem?

Mr. **Shuman**. Mr. Chairman, we are certainly not withholding funds for this program. We have told our loan officers and our State directors that our No. 1 priority during this time of the year is to utilize our time resources for completing our processing of farm operating type loans. As a result, there has been some shifting of personnel from processing water and sewer system applications and individual housing applications over into the effort to get our farm operating credit out on a timely basis. Another thing you want to keep in mind, Mr. Chairman, is the fact that the construction season in many parts of the country is not upon us yet. We anticipate that since we are so far along with the processing of our operating and our emergency loan programs, we will see an increase in the amount of obligations of our 502 program. Our obligations through February 28 for the 502 program are $588,497,000.

WATER AND WASTE DISPOSAL LOAN PROGRAM

Senator COCHRAN. You mentioned the water and sewer loans, and that brings me to the portion of the budget request relating to that program. I notice that the requested level is $75 million below the fiscal year 1982 level. Do you perceive that the need for these loans is diminished by that amount? Are we going to have serious problems on our hands if we approved that funding recommendation?

Mr. SHUMAN. The agency feels that this amount of funding will be adequate to take care of the needs of the truly rural communities based on the applications we now have on hand. Also, we are very conscious of the need to have the Federal Government back away from its competition with the private sector for the limited amount of credit that is available for this Nation. In an effort to make a contribution to the economic situation, this rather small reduction in that program is recommended.

Mr. NAYLOR. Mr. Chairman, I might also add that we have been in regular communication with regional bond dealers, and they indicate to us that there is a market and a willingness to make a market for rural communities, even those that are not rated. They indicate that they have not been in that field to some degree in the past because of the activity of the Farmers Home. They are quite willing to work with us and work with the small rural communities. We increasingly are looking toward a joint effort between the private sector and the Farmers Home Administration in using a combination of funds to carry out these projects in more rural areas. In other words, for poorer communities particularly, in combination with grant money, our loan money, and in many communities, commercial funds will be used to complete these projects. This permits our program dollars to go a lot farther than they have in the past. We think we can do a good job with that type of cooperative effort. It is an appropriate way to reduce the Federal demands upon the money market. That will need to be done in order to get interest rates down.

Senator COCHRAN. As you know, we came to grips with this program when we were writing the farm bill last year. Some very specific language was included in the statement of the managers of the conference on the farm bill directing the Secretary to provide 5-percent loans to any community with a median family-income level less than 80 percent of the Statewide nonmetro median family income and which has health and safety problems. I know the Secretary has been developing regulations to carry out this mandate of Congress and that regulations have not yet been published. From what I have heard about the proposal that is being discussed within the Department, there is an indication that the exact language of the statement of the managers may not be followed in developing a program for this 5-percent money to the very poor and most needy areas of the country. When do you expect those regulations to be published and available for comment?

Mr. SHUMAN. The document is ready to go to the Federal Register. We anticipate that they should be published within a week.

Senator COCHRAN. Do you feel this level of funding of $75 million below this year's level will be sufficient to carry out the directions of the statement of the managers as to the 5-percent loan funds?

Mr. SHUMAN. We feel that a combination of the intent of the language of the managers and the direction given to us by the basic statutes are fulfilled by the regulations that will be published. We think that with our emphasis on providing funding for those communities that are small and truly rural in nature, this level will be adequate.

Senator COCHRAN. We will withhold any kind of conclusions about the proposal until we see the published document. But I am concerned about the funding level that is being requested and whether or not it is going to be adequate to meet the needs that exist. This was a very important program, as we all know. It provides some communities that just absolutely can't meet these water and sewer needs with financing that couldn't be made available from any other source.

I am very happy to have the distinguished Senator from North Dakota, Mr. Andrews, who is a very valuable member of this committee, join us. Senator, do you have any questions of this group of witnesses?

FARM OPERATING LOANS

Senator ANDREWS. Mr. Chairman, your kind words are appreciated on a very difficult morning.

Mr. Shuman and Mr. Naylor, let me assure you that this question has been asked before, but I would like to get it up front so everybody knows about it. This committee doesn't set programs. This committee decides whether or not there is going to be a certain amount of funds for the programs. There has been a lot of conversation about the Farmers Home Administration operating loans. Now, as I understand, what this subcommittee did last year, under the very able direction of our chairman, was to set the level for Farmers Home Administration operating loans at the highest level it has ever been in history; is that correct?

Mr. NAYLOR. That is correct.

Senator ANDREWS. What level was that?

Mr. NAYLOR. $1,375 billion.

Senator ANDREWS. These operating loans are the ones that go to the small farmers or the new farmers or the farmers in difficulty, as I understand it.

Mr. NAYLOR. That is correct.

Senator ANDREWS. That is a higher level than it ever was during the last 4 years.

Mr. NAYLOR. Over a 50-percent increase.

Senator ANDREWS. As I understand it, you are coming up with a budget request that further increases those Farmers Home operating loans.

Mr. NAYLOR. Yes, Senator, we are.

Senator ANDREWS. What is the size of the increase you are requesting?

Mr. NAYLOR. $135 million for this coming year.

Senator ANDREWS. So this amount for next year will again set an all-time record as far as dollar availability in the operating loan function of the Farmers Home Administration.

Mr. NAYLOR. That is correct, Senator, it will.

Senator ANDREWS. So the story going around, stirred up by some headline hunters that I think are doing a disservice to the farmers, that these operating loans aren't available because the Congress and/or the administration cut back the level of funds, is simply not true.

Mr. SHUMAN. No question, that is not true.

Senator ANDREWS. The thing that bothers me is that in these totally political remarks that go out, you get up on your tub and start talking about how we shorted the funds for operating loans. Immediately the fertilizer supplier, the seed supplier, the lumberyard, and the rest begin to put those farmers on a current basis, because they think there is a guy that has been Farmers Home funded and there isn't any money this year. They add to the distress of the farmer rather than help solve the distress of the farmer. I have found that because of these rumors that are going around, many of the normal suppliers have found that they have to move their credit. Instead of the usual buy it in the spring, pay for it in the fall, their bankers are getting nervous. They are demanding more immediate payment, which further exacerbates the problems facing farmers today.

In the level of funding we now have for operating loans, have you had to tell farmers who come in looking for operating loans that they have been turned down because you don't have the dollar availability?

Mr. NAYLOR. No. We have nearly $1 billion available for farm-operating loans at this time.

Senator ANDREWS. You have that left. So any farmer who can qualify for operating loans and who goes in to his local Farmers Home office seeking the operating loan will get the money if he meets the critieria?

Mr. SHUMAN. In some cases, Senator, we will ask that farmer to seek cooperate funding from another lender through utilization of our subordination authority.

Senator ANDREWS. But you have always done that.

Mr. SHUMAN. That is correct, but we are now emphasizing the participation of other lenders through the subordination authority.

Senator ANDREWS. That is nothing new in Farmers Home.

Mr. SHUMAN. That is nothing new, except we are finding this year, Senator, a lot more acceptance of our subordination requests than we have had in past years.

FARM-OWNERSHIP LOAN PROGRAM

Senator ANDREWS. Now let me go to the part that was cut. The part that Farmers Home has cut has been the land-purchase loans. What do you call that?

Mr. SHUMAN. The level for guaranteed farm ownership loans was reduced by $50 million.

Senator ANDREWS. Farm ownership loans. That category has been cut over what it was a couple of years ago, as I understand.

Mr. NAYLOR. Not very much, but some.

Senator ANDREWS. No, not very much. But there is a shortage of funds. So if somebody comes in for a farm ownership loan, he may be told that the funds have been exhausted, and that he has to wait for 3 or 4 months?

Mr. SHUMAN. That is correct.

Senator ANDREWS. I recall some time ago my colleague in the House, who is also from our most distinguished Chairman's State of Mississippi, had one of your predecessors before him. At that time I got into a candid conversation with him. I still feel the same way about those ownership loans and the ease with which farmers were able to get them. This cranked up the value of the farm acreage to the point where it is a whale of a burden to the farm family that stayed on the land. This inflation in farm real estate prices makes it possible for the fellow who sells the land to make out like gang busters. He gets three times what it is worth, and goes down to Florida and sits on his duff. But it really is tough on the person who has had to buy that quarter next to him at an inflated price because of the easy credit in real estate purchases.

Mr. SHUMAN. I would certainly agree that the availability of credit increases the number of people who would compete for the purchase of available land.

Senator ANDREWS. Many farmers who are now in trouble find themselves in trouble, because they purchased land at these fantastically inflated figures. Had there been more money for operating loans and less money available for ownership loans, we might not have been quite as bad off as we are today.

Anyway, you can agree with that posture. In fact, I asked Secretary Jack Block when he came in—he is one of the best farmers in Illinois and I like to think I'm a fairly competent farmer—the simple question: Given today's machinery and real estate prices, could your son, who is operating that farm unit, take over your farm unit and make a profit? He said: No way. My son can't either. That is the problem. It is exacerbated by low farm prices and inflation, but it is very much exacerbated by the idiotic price levels that farm real estate has reached. So I think the transfer from ownership loans to operating loans is in the best interest of the small farmer and the individual operator. If we can calm down the inflation in land prices, I think we are all going to be a lot better off. That land is only worth what it can produce. It sure isn't worth what it has got to be selling for, because some group is willing to pay 85 percent more, or whatever a damn fool is willing to pay. We have some acreage selling for $2,000 an acre and other acreage selling for $500 an acre. I think the same thing is true in Mississippi and probably in Illinois.

Mr. SHUMAN. There is no doubt about it. In Illinois there are a lot of speculative prices paid for farm real estate.

STATUS OF BUSINESS AND INDUSTRY LOAN PROGRAM

Senator ANDREWS. Let me ask one other question. You are again proposing reductions in B. & I. loans and alcohol production facility loans. This committee is going to have to decide whether or not to go along with that recommendation. I would like to take a look again at the funds we appropriated for these programs in fiscal 1982. How much of the $300 million appropriated for B. & I. loans in 1982 has been spent?

Mr. SHUMAN. Senator, let me check with my staff to get you the precise status of that program.

Senator ANDREWS. I always find it is the second or third row that have the answers. You guys who sit up front are there to look attractive.

Mr. SHUMAN. Senator, because of the uncertainty about the status of the program at the beginning of this fiscal year, we did not start processing applications until after the appropriations process was completed. We have funded two applications for a total amount of about $3.4 million. We have 117 preapplications and we anticipate that we will utilize all of the funds.

Senator ANDREWS. So, of the $300 million, you have obligated $3.4 million so far. God, you talk about the tortoise; you really have yourself anchored in place. But you anticipate obligating the bulk of the funds. You are not proposing sending up a rescission notice or transfer of funding?

Mr. SHUMAN. No, I have not prepared any rescission.

Senator ANDREWS. So, the committee can assume that you are going to make a good-faith effort to follow the direction the committee laid out for you in last year's appropriation bill?

Mr. SHUMAN. Certainly.

ALCOHOL PRODUCTION FACILITY LOANS

Senator ANDREWS. How much of the $250 million for alcohol production facility loans has been released?

Mr. SHUMAN. Have we released?

Senator ANDREWS. Yes. In other words, you have $250 million in that category; how much of that have you obligated?

Mr. SHUMAN. Again, because of startup problems and the uncertainty concerning the program at the beginning of the fiscal year, we have funded no alcohol facility projects to this date. However, we have several very large projects that are coming forward, including one from your home State.

Senator ANDREWS. You are aware of that one.

Mr. SHUMAN. Oh, we certainly are. We do anticipate funding several alcohol fuel projects under that authority. I am not as confident at this time that all of the funds that are available will be utilized under that program as I am as far as the B. & I. program is concerned.

Senator ANDREWS. Well, the alcohol program in Walsh County has been around almost 3 years. As a matter of fact, it was in the Department of Energy for awhile. Local farmers spent nearly $1 million in feasibility studies for the purchase of the building, with the thought they would receive the guarantee and could begin producing ethanol. I think their idea was to produce the ethanol from agricultural waste rather than doing it with straight grain. That is one of the things the company has looked at as a good example of what should be done. Now I understand that the project has been ranked by your own people at the top of the list as a good project.

Mr. SHUMAN. We are in the process of reviewing it here in the national office. I have had no report from staff as yet.

Senator ANDREWS. But out in the field, it has been given the top ranking and has been recommended to you, as I understand it.

Mr. SHUMAN. I will be glad to provide you and the subcommittee with a complete status report for the record, Senator.

Senator ANDREWS. Assuming that what I say is true, and it is one of the better projects, I would imagine that your office in Washington is going to move with a good deal of, shall we say, efficiency to finally process this loan and make it available. Just a minute ago you said that you have the funds available and that you are moving in this direction, and, more importantly, you have the congressional mandate to approve loan guarantees like this one. So I'm sure you'll be making your final decision soon.

Mr. SHUMAN. We will complete our processing just as rapidly as we can.

Senator ANDREWS. Can you give me a time frame?

Senator COCHRAN. How about all deliberate speed?

Senator ANDREWS. I remember that "all deliberate speed phase". You have $250 million. You have spent none, but you said you were going to. So I am assuming that because this is one of the better projects, you will spend some money on it. I have learned in the 20 years I have been sitting on these committees that it is not just for the good of my State, it is good for the Nation. I believe in this kind of project. I'll tell you, it just floors me sitting on the Defense Subcommittee to have a four-star general come up and say how we need to fund $24 billion for a rapid deployment force. I say, "Rapid deployment; I don't know what that means." He says, "Well, we have to have it, Senator, because we have to have a good posture in the Middle East." I say, "Well, go on." They say, "Well, we have to maintain our access to oil." Here we are with the Federal Government spending $24 billion to assure our having a handle on oil we don't even own and somebody else sets the price on for us, but on the other hand, we get all hesitant about obligating some money in our own country to use agricultural waste to produce some Btu's. That is why I am very happy you have decided to move ahead, and that you can see the wisdom in what our great chairman, Senator Cochran, and the subcommittee mandated to you last year. We are looking forward to seeing the results.

Now, having gone through that litany, how many weeks is it going to take to make a decision?

Mr. SHUMAN. Senator, we have had the loan docket in the national office for about a week. We still have to refer the docket through our environmental and technical staff. It has to be reviewed in some detail as to the feasibility and the practicality of the whole project. I do assure you that we will give it priority attention at the national office and process it just as fast as Mr. Calhoun and his staff can.

Senator ANDREWS. Since you just testified they had not processed anything last year, they must be well rested up. [Laughter.]

Mr. SHUMAN. Well, that would be the case if that were the only thing they had to do. Our environmental and technical staff and our loan officers in that section handle all types and manner of projects. However, I will assure you that we will give it the highest priority.

Senator **Andrews**. Highest priority. Are you looking at three, four weeks, or a couple of months?

Mr. **Shuman**. That depends on the difficulty of the technical review and the problems which turn up as they dig into the project. It would just be impossible for me to make an estimate.

Senator **Andrews**. Knowing how the system works, I would imagine in a matter of a few weeks or so, you will be rattling up here looking for something under a supplemental or continuing resolution.

Mr. **Shuman**. I certainly hope that we will be able to complete the processing before that time.

[The information follows:]

Status of Alco Project

The loan application of Alco, Inc., was one of the many projects considered for funding in the fall of 1980, but it was not selected. They reapplied to FmHA under the Energy Security Act; however, funds authorized under the Energy Security Act were withdrawn before any loans were approved and obligated. The project has reapplied under the alcohol production facility loan program. The application is currently being reviewed at the National Office level and a decision should be made shortly.

CONCLUDING REMARKS

Senator **Andrews**. Thank you, Mr. Chairman.

Senator **Cochran**. Thank you, Senator.

Again, let me express the appreciation of the subcommittee for your being here and for the way in which you responded to all of our questions. We hope the subcommittee can work out a response that will support the effort the administration is making to try to cut back in areas where we may not have been using tax dollars as effectively or as efficiently as we could. But we still need to be sensitive to the real needs in the countryside that nobody but the Farmers Home Administration and the programs under your jurisdiction that have been authorized by Congress can meet. Thank you very much.

SUBMITTED QUESTIONS

[The following questions were not asked at the hearing, but were submitted to the Farmers Home Administration for response subsequent to the hearing:]

FARMERS HOME ADMINISTRATION

QUESTIONS SUBMITTED BY SENATOR COCHRAN

RURAL CREDIT AVAILABILITY

Question: The Administration is proposing approximately $3.4 billion total reduction in rural lending programs. Would you explain the rationale behind this request?

Answer: The proposed reductions in the programs for FY 1983 reflect the intent of the Administration to limit the growth of Federal outlays and reduce the dependence on the Federal Government as a supplier of credit. The lower program level will also allow FmHA to improve its loan servicing capabilities and return to its primary role of providing supervised credit to farmers and other rural people.

Question: Who in the private sector, if anyone, will be able to pick up the slack if these cuts are enacted into law? Will not rural Americans suffer greater hardships?

Answer: We expect the private rural lending market to significantly improve as the President's Economic Recovery Program becomes fully effective. As the Program begins to take full effect, and we see interest rates go down, rural Americans will benefit as will their cousins in the city.

Question: We hear daily from farmers around the country who are finding it increasingly difficult to obtain financing for this year's farming operations. With planting time for many commodities soon to be upon us, what is your analysis of the current environment for farm loan programs as compared to last year?

Answer: Most farmers will receive loans for this year's farming operation from their traditional sources of credit. The FmHA and other lenders will continue with most of their existing clients in as much as they can. We believe our insured and guaranteed loan funds coupled with our subordinations will be sufficient to meet the basic credit needs of our eligible farmers this year.

Question: I was told recently that the Federal Intermediate Credit Bank is turning down loans to farmers even though they have sufficient equity, because they cannot show a profit on paper. It appears also that the Farmers Home Administration is not making loans to these farmers because they are limiting their loans to existing Farmers Home borrowers. Does this mean that a lot of farmers with a sound equity position are being put out of farming?

Answer: Right now, we are giving priority attention to our existing borrowers who must have additional FmHA loans to stay in farming. We are also beginning to process more applications from individual farmers that have not been previously financed by FmHA. We are making a substantial effort to get participation credit through subordinations to enable us to assist the maximum number of farmers possible with the available funds. Through March 17, 1982, 9,227 initial loans totaling $308.5 million have been obligated. This compares to 8,574 initial loans totaling $292.5

million at the same time last year. We do not believe that many farmers with sound equity are being forced out.

Question: What are you doing to help work farmers out of this very difficult financial situation?

Answer: We are using our various authorities for additional loans, subordinations, rescheduling, reamortizing and deferring when appropriate and carrying accounts delinquent when in the best interest of present borrowers and the FmHA. We are encouraging new applicants and present borrowers to use credit very wisely and to borrow only for their most essential needs. We are emphasizing efficiency and good management. We believe that most farmers are taking a "belt tightening" attitude toward their 1982 operations.

Question: Are certain farmers slipping through the cracks and finding themselves unable to secure credit anywhere?

Answer: Generally, we believe that other lenders and the FmHA are supplying adequate credit to meet the most essential needs of farmers. In many cases, the FmHA and other lenders are cooperating in supplying the needed assistance. We believe few farmers who can make it are being forced out due to a lack of credit.

RURAL HOUSING PROGRAMS

Question: The bulk of the proposed cuts in rural lending is in the Farmers Home Administration's housing programs. How was the decision made to target these programs?

Answer: President Reagan has proposed an Economic Recovery Program to fight the effects of inflation, lower taxes, and provide incentives to increase productivity. A major element under the program is a reduction in Federal borrowing commitments. In development of the FY 1983 budget request, all programs were reviewed carefully. Many of the smaller farm loan programs were terminated. The community loan programs were cut back.

Even though many of the housing programs were also reduced, we feel that we will continue to offer a substantial program in truly rural areas. The proposed cuts in the rural housing loan programs will reduce Federal borrowing which is needed to relieve pressure on interest rates and to open the way for noninflationary and sustainable economic growth.

Question: How will thousands of rural Americans finance homes or rental housing without the help of Farmers Home Administration loans?

Answer: FmHA should be viewed as a lender of last resort. Loans and grants made through FmHA were designed to supplement the amount of credit and capital directly available from commercial lenders in rural areas. The Agency's mission in housing is to make loans to qualified applicants who can find no other source of financing available on terms or conditions they can meet.

As the Economic Recovery Program begins to take effect, private lenders will be able to increase their involvement in rural housing. We will continue in our role and maintain a strong program as the lender of last resort.

Question: What, if any, evidence do you have that the private lending market can fill the void that will result if the housing loan cuts are enacted into law?

Answer: The Administration does not necessarily expect private lenders to immediately fill whatever void might be created by the rural housing loan reductions, but we know that we can expect no real economy recovery until we can get interest rates down to more normal levels.

Question: Secretary Block recently announced that housing loans for towns between 10,000 and 20,000 population will continue to be available beyond March 31, 1982. How long will this determination be in force?

Answer: This determination will be in force until revoked by either the Secretary of Agriculture or the Secretary of Housing and Urban Development, based on evidence concerning the availability of other mortgage credit in these areas.

Question: Do you anticipate future housing loan unavailability for towns in this category?

Answer: We anticipate that private mortgage lenders will move to provide a more significant share of credit in towns between 10,000 and 20,000 population.

Question: Have you assessed the impact a change would have on builders and prospective homeowners in those communities?

Answer: We expect, based on knowledge gained from areas which have previously moved from eligible to ineligible status due to population growth, that a withdrawal of FmHA funds would be mitigated by the movement of other credit sources into the area to handle the demand. Additionally, current credit sources in those areas could be expected to provide increased service through a minimal redirection of their lending efforts.

Question: Sixty-seven percent of the home builders nationwide are out of business. In my own State of Mississippi, the Farmers Home Administration is practically the only program keeping rural builders in business. If the Administration wants to stimulate homebuilding and economic recovery, why is it cutting these housing programs?

Answer: The proposed budget for FY 1983 includes overall reductions in loan programs for Farmers Home. This reflects the intent of the Administration to limit the growth of Federal outlays and reduce the dependence on the Federal Government as a supplier of credit.

As the President's Economic Recovery Program begins to take effect, private lenders should be expected to increase their involvement in rural areas. Builders, as well as all of the related building trades, will be beneficiaries of this sustained growth.

Question: Mr. Shuman, the Farmers Home Administration is required by law to target at least 30 percent of its housing money to very low-income households. I understand that for fiscal year 1981, your record was about 23 percent. For fiscal year 1983 you propose a substantial decrease in funds for rental assistance. How do you plan to improve your record in serving low-income people if you reduce funds so drastically for one of the programs that best serves poor rural people?

Answer: As you are aware, Senator, the 30 percent requirement applies to all of FmHA's housing programs under Title V of the Housing Act of 1949, as amended, and not just to section 502 and section 515 funds. Our fiscal year 1981 figures indicate that 31 percent of rural housing funds went to households with less than 50 percent of the area median income. Even with the proposed decrease in rental assistance, when all programs are considered, it is believed that FmHA can and will remain in compliance with this provision of the Housing Act.

SELF-HELP HOUSING PROGRAM

Question: The Farmers Home Administration has requested the elimination of the self-help housing program. I understand that through this program, participants can save $10,000 over the cost of a contractor-built 502 house. Further, that the cost to Government is less than $5,000 a unit for the self-help housing agency. Can you explain to me why, in these difficult times, we would want to eliminate this program?

Answer: The elimination of this program will not cause any major disruption in the assistance provided by the Agency in meeting the housing needs of those rural residents most in need. Many of the families qualifying for self-help can qualify for a section 502 contractor-built home since interest credits are available. Additionally, staff resources needed to successfully administer this program are substantial and are needed to meet other priorities such as providing servicing and counseling to all loan borrowers.

Question: Also, could you give me an estimate of the cost of keeping the program at the current level of production -- 3,000 to 4,000 units per year?

Answer: In FY 1981, we obligated approximately $13.2 million in the self-help housing technical assistance grant program. Currently, we have approximately 70 active grantee organizations. To maintain the current rate of production, at least 50 percent of these grantee organizations would need to be refunded in FY 1983. Refunding of 35 grantees at an average cost of $300,000 each would require $10.5 million in section 523 grant funds.

SLOW RATE OF OBLIGATION

Question: We are now five months into the fiscal year. Could you tell me why the Farmers Home Administration has spent so little of its housing money? For instance, for the 502 subsidized housing program, the Farmers Home Administration has only obligated about $539 million. I estimate that, based on five-twelfths of the year, the Farmers Home Administration should have spent $959 million. Further, looking at all the programs, I estimate that at this point in time about $3.8 billion should have been obligated and I understand that only a little more than $630 million has been obligated. Can you tell me why this is?

Answer: There are many reasons for the apparently slow rate of obligation under FmHA programs. Some of the major reasons are: extended period of operation under continuing resolutions, priorities placed on timely loan processing of farm and emergency loans, newly implemented program regulations, new income limits, unattractively high interest rates under certain programs, seasonality attributable to building activity and normal delays in loan processing as complex applications and preapplications are developed and prioritized within states for expected obligation in the final two quarters.

Question: Do we need more staff? What is the problem as you see it?

Answer: No, we believe that the County Offices are adequately staffed and can process loan applications on a timely basis. We are making changes which will move some additional staff to the County Offices to handle loans and improve our service to rural borrowers.

Question: As you may know, the President's Housing Commission has made some recommendations regarding the Farmers Home Administration. One suggestion is that the interest credit from the rural housing insurance fund be used to provide states with block grants for housing assistance and that the Farmers Home Administration make only market rate loans. Do you have any opinion on this, and can you explain to me how we can ensure continued assistance to low- and moderate-income people when we separate the financing of loans from the subsidy?

Answer: As you know, the Farmers Home Administration deals with borrowers who cannot obtain credit elsewhere. We have always felt that the key to making these borrowers successful home owners or farmers is to be able to provide the credit supervision and counseling which will help them meet the responsibilities their loans bring. Therefore, even if another financing mechanism could increase program efficiency, a way should be found to provide the individual one-on-one contact which will help them be successful.

DELAYS IN LOAN PROCESSING

Question: What is the average time it takes from filing an application for a farm loan, to receiving the check?

Answer: Under normal circumstances, processing time from the day an application is filed to receipt of loan funds is on the average of 30-60 days for operating type loans and an average of 60-90 days for real estate type loans. Our regulations do require that the applicant be notified of their eligibility within 30 days. Actual processing time may vary substantially, however, due to such factors as the type of loan involved, the availability of loan funds, the number of other applicants, county office staffing and workload, and the complexity of the farmers financial and production problems.

Question: Would you bring the Subcommittee up to date on the status of backlogs at the St. Louis Finance Office?

Answer: Backlogs at the Finance Office are being reduced. The computer equipment has been upgraded to provide a faster and larger capacity for loan processing. Seven state offices are using computer terminals for processing obligations and check requests, thus saving 3 days in processing time. In addition, modifications in our internal procedure and changes in computer processing have reduced the processing time for farm production and emergency loans from 7 working days to 3. Discrepancies in processing are given high priority. Telephone calls are made to field offices, when necessary to solve discrepancies. We feel these improvements will enable us to process obligations and loan checks on a timely basis during the Spring lending season.

LOAN DELINQUENCIES

Question: What is the current percentage of outstanding Farmers Home Administration loans that are delinquent?

Answer: As of February 28, 1982, 21 percent of all FmHA loans were delinquent.

Question: Would you provide, for the record, a listing by state of delinquency rates?

Answer: A table showing loans outstanding, loans delinquent and percentage of delinquencies by state is attached.

[The information follows:]

Farmers Home Administration: Loans Outstanding, Loans Delinquent and Percentage Delinquency, Feb. 28, 1982, by FmHA State Offices and United States

State	Loans Outstanding	Loans Delinquent	Percentage Delinquent
	(Number)	(Number)	(Percent)
Alabama	61,087	14,037	23
Arizona	16,589	4,416	27
Arkansas	71,173	19,129	27
California	32,503	6,259	19
Colorado	16,634	4,672	28
Delaware	20,135	3,209	16
Florida	37,401	8,246	22
Georgia	70,477	20,898	30
Idaho	31,421	7,536	24
Illinois	41,690	9,141	22
Indiana	38,043	9,243	24
Iowa	52,191	7,642	15
Kansas	32,879	5,776	18
Kentucky	55,829	8,677	16
Louisiana	50,947	14,536	29
Maine	35,855	7,640	21
Massachusetts	16,474	2,073	13
Michigan	42,826	8,761	21
Minnesota	43,757	11,145	26
Mississippi	105,191	28,937	28
Missouri	65,765	13,895	21
Montana	14,010	3,094	22
Nebraska	32,352	5,290	16
New Jersey	18,123	2,833	16
New Mexico	12,236	2,748	23
New York	57,240	10,071	18
North Carolina	105,420	14,935	14
North Dakota	36,425	8,293	23
Ohio	23,995	5,682	24
Oklahoma	56,770	9,640	17
Oregon	19,356	3,324	17
Pennsylvania	30,811	4,644	15
South Carolina	54,337	9,995	18
South Dakota	48,415	10,272	21
Tennessee	66,724	14,930	22
Texas	89,816	28,127	31
Utah	17,633	2,607	15
Vermont	20,918	1,908	9
Virginia	61,589	14,411	23
Washington	19,696	3,323	17
West Virginia	24,760	3,345	14
Wisconsin	40,108	4,948	12
Wyoming	7,233	1,185	16
Alaska	1,593	170	11
Hawaii	9,943	1,580	16
Puerto Rico	37,151	9,847	27
United States	1,845,521	393,070	21

FORECLOSURE POLICY

Question: Much has been said and written recently about the fear among farmers that the Farmers Home Administration is cracking down quicker and harder on farmers who are unable to show ability to repay in this difficult economic period. Secretary Block is quoted as having said in January that the Department would "walk the extra mile" with farmers to get them through "these cloudy times." What is the Department's policy on foreclosures?

Answer: Our policy has been and is to "walk the extra mile" with farmers who are having financial problems. Foreclosure is a sign of failure for both the borrower and the Farmers Home Administration supervised credit efforts. We use it only as a last resort and only after considering, as appropriate, use of our authorities for rescheduling, reamortizing, deferral, carrying accounts delinquent and making additional loans. We will continue with borrowers who have acted in good faith in trying to meet their agreements with FmHA, made an honest effort to pay but could not due to circumstances beyond their control, applied recommended and recognized successful production and financial management practices, maintained and accounted for security property, and have a reasonable chance to repay any new loan for 1982 production purposes plus the interest accruing on that loan.

Question: What is the current foreclosure picture on a national basis?

Answer: Through February, 1982, FmHA had completed liquidation on 342 borrowers. Other lenders with loans to FmHA borrowers under the subordination authorities had completed liquidation on 201 borrowers.

Question: How has the Department worked with farmers to help keep them in business and get over this economic hump?

Answer: The FmHA has and will continue to provide assistance to new applicants and existing borrowers with credit to restructure their debts and make improvements in their operations. FmHA policy is to help them obtain credit from other sources, when appropriate. We have also worked with the Extension Service, the Soil Conservation Service and the Agricultural Stabilization and Conservation Service. FmHA is also carrying some accounts in a delinquent status when this is appropriate.

Question: How do foreclosures at this time compare with the same point in the last fiscal year?

Answer: We are running about the same this fiscal year as we have in prior fiscal years, a little bit higher, but not dramatically so.

FARM OPERATING LOANS

Question: I am pleased to see the requested $135 million increase in farm operating loans. What is your assessment as to how far this additional amount will actually go in keeping our farmers -- particularly, young and family farmers -- in business?

Answer: As you know, the FY 1982 level for farm operating loans is a 60 percent increase over the FY 1981 level. The $135 million increase for FY 1983 is on top of this increase. We believe that this amount, along with participation by other lenders, will be adequate to meet the needs of young and other family farmers who are establishing successful farming operations.

Question: Will program guidelines be the same for farm operating loans in fiscal year 1983?

Answer: We do not anticipate any significant changes in eligibility requirements from those now in effect, however, we are proposing that the reduced interest rate for some borrowers be eliminated. We feel that the normal interest rates charged in the program are reasonable and affordable for any viable farming operation. We don't feel that the cost to the taxpayer is justified by the results.

Question: Will any additional farmers be qualified?

Answer: As a lender of last resort, we expect to continue to serve those family farmers who have reasonable prospects for success, but cannot qualify for adequate credit from other sources. New people will receive loans but not beyond the scope of those now being served.

Question: Last August, the General Accounting Office issued a report on your limited-resource farmer loan program. In response to that report, USDA stated it was taking a number of corrective actions, which the General Accounting Office considered responsive to its recommendations. Is the Department and the Farmers Home Administration on schedule with respect to its proposed corrective actions?

Answer: Yes, FmHA is taking steps to complete corrective actions. Other needed changes are being processed at the same time to avoid duplicated efforts. We are on schedule at this time.

SOIL CONSERVATION LOANS

Question: Your Farmers Home Administation budget request calls for the elimination of soil conservation loans. Elsewhere in the Department's budget, the need for increased conservation practices is emphasized. How do you justify the elimination of this program?

Answer: As you know, Mr. Chairman, these loan programs have not been fully utilized over the past few years. Under the current economic conditions, it is unlikely that the demand would increase in the next several months. FmHA has always encouraged conservation practices and will continue to stress their importance in the development of farming operations.

Question: Will the mission of this program be picked up elsewhere in the Department's budget?

Answer: The Farmers Home efforts are now more focused on the soil and water system needs of the individual farmer while many of the Department's other program efforts are focused toward the major soil erosion problems.

BUSINESS AND INDUSTRY AND ALCOHOL PRODUCTION LOANS

Question: Two loan programs related to business and industry are eliminated in your fiscal year 1983 budget request. The 1982 program levels were $300 million for industrial development loans, and $250 million for alcohol production facilities loans. Please explain your reasons for eliminating these programs.

Answer: The President's Economic Recovery Program has been designed to result in more credit being available throughout the economy. Because of this, it would now be more appropriate for business and industry loans to be financed through private lenders, since these loans are only made to credit worthy borrowers. Funding should also be provided for alcohol fuel production facilities loans through private lenders due to considerable tax and other government subsidies being available to help the private sector. By terminating these programs, FmHA can return more of its resources to its original purpose as a rural lender of last resort.

Question: Are there other sources of lending that can fill the void that would result if these programs are ended?

Answer: Commercial lenders should be able to finance the businesses which are truly economically viable. In addition, local municipalities can use industrial revenue bonds to assist local businesses. State agencies also have economic development aid for these purposes.

RURAL RENTAL ASSISTANCE PROGRAM

Question: I notice in your proposed budget, you request $185 million for direct payments to participants in the rural rental assistance program. Formerly, this was a loan account, which in fiscal year 1982 totalled $398 million. Why the change?

Answer: FmHA is proposing a separate direct appropriation for this program in order to provide a clearer and more concise budgetary presentation and to more adequately identify the costs of the program.

Question: What is your projection for the program payments for the next five years?

Answer: The projected outlays for the rural rental assistance program over the next 5 years are: $164.8 million in 1983, $175.8 million in 1984, $181.4 million in 1985, $204.3 million in 1986, and $198.9 million in 1987.

EMERGENCY DISASTER LOANS

Question: The program level is still at $1.54 billion, per your request. What are your plans for this program in the next fiscal year?

Answer: Our plans for the emergency disaster loan program in fiscal year 1984 will depend a great deal on the progress of the federal crop insurance program and the disaster situation. We will keep the Congress informed regarding our needs in this program.

ECONOMIC EMERGENCY LOAN PROGRAM

Question: On February 24, I, along with 13 of my colleagues wrote Secretary Block urging him to use all the authorities given to him in the Farm Bill to help improve the depressed farm economy. Included in the letter was a specific recommendation that the economic emergency loan program be used to help farmers who are unable to get credit because of the current economic stress on agriculture.

I received a letter back on March 15 outlining the guidelines governing the use of the economic emergency funds. The guidelines are as follows:

> "The Secretary may make available Farmers Home Administration economic emergency loans when, in his judgment, an agricultural economic emergency exists in a State as reflected by various factors, including: current loan to deposit ratios of rural banks in that State; declines in the State's net farm income; variation in the crop yields of the major crops within that State; and a significant upward change in the number of classified loans held by conventional or Farm Credit System's agricultural lenders in the State.
>
> Furthermore, in states eligible, before an applicant can be considered eligible for an economic emergency loan, the applicant must be first determined ineligible for a regular operating loan or a disaster loan."

I ask that both letters be made part of the hearing record at this time.

(The letters follow:)

United States Senate

COMMITTEE ON
AGRICULTURE, NUTRITION, AND FORESTRY
WASHINGTON, D.C. 20510

February 24, 1982

Honorable John R. Block
Secretary of Agriculture
Washington, D.C. 20250

Dear Mr. Secretary:

We urge you to implement the Economic Emergency Loan Program for the 1982 crop year as soon as possible.

The Agriculture and Food Act of 1981 extended the Economic Emergency Loan Program through September 1982 and limited the total new loans that could be made to $600 million. The program is, of course, one of several programs in the 1981 Act designed to assist farmers and assure consumers an abundance of food and fiber.

Specifically, the Economic Emergency Loan Program is designed to assist farmers in maintaining their farming operations. Under the program, you are authorized to make and guarantee loans to farmers who are unable to obtain sufficient credit elsewhere due to economic stresses, such as a general tightening of agricultural credit or an unfavorable relationship between production costs and prices received for agricultural commodities.

Current high interest rates combined with depressed commodity prices have placed the Nation's farmers in serious financial difficulties with many of them unable to obtain sufficient credit to finance the production of their 1982 crops.

We believe it imperative that you use all of the programs at your command in alleviating the problems facing our farmers, including the Economic Emergency Loan Program.

Sincerely,

Walter D Huddleston — Thad Cochran
John Melcher — David Pryor
Tom Eagleton — Howell Heflin
Edward Zorinsky
John C. Stennis — David Boren
Jesse Helms — Roger W Jepsen
Alan J Dixon — Rudy Boschwitz

DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20250

March 15, 1982

Honorable Thad Cochran
Chairman, Subcommittee on Agriculture,
  Rural Development, and Related Agencies
Committee on Appropriations
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

On February 18, 1982, in my appearance before the House Agriculture Committee, I stated my intention to develop and announce guidelines for the Economic Emergency Program.

At this time, there appears to be ample funds available to meet agricultural credit needs. The Department is cooperating with the American Bankers Association, the Independent Bankers Association of America, and the Farm Credit System to monitor the situation and provide funds for eligible individual farmers.

The following guidelines will govern the use of the Economic Emergency program:

> The Secretary may make available Farmers Home Administration economic emergency loans when, in his judgment, an agricultural economic emergency exists in a State as reflected by various economic factors, including: current loan to deposit ratios of rural banks in that State, declines in the State's net farm income, variations in the crop yields of the major crops within that State, and a significant upward change in the number of classified loans held by conventional or farm credit system's agricultural lenders in the State.
>
> In eligible States, before an applicant can be considered eligible for an economic emergency loan under FmHA regulations that applicant must first be determined ineligible for an FmHA operating loan (OL) or an FmHA emergency loan (EM).

We are preparing the regulations needed to implement these guidelines. They will be issued shortly.

Sincerely,

John Block

JOHN R. BLOCK
Secretary

Has the money for this program been released? If not, when?

Answer: Funds for the economic emergency loan program have not, as yet, been released. We are continuing to watch the situation closely and at the present time we have available sufficient lending authority and funds.

Question: How many states will be eligible for economic emergency loans under these guidelines?

Answer: As we are still reviewing the situation, it is too early to project what areas may develop a need for the extra farm credit that could be made available under the economic emergency loan program.

Question: Is there any delay in releasing the funds because the Department feels that no economic emergency exists in the farming community?

Answer: Before the funds are put into use, we need to make sure that the program is made available to those most in need of Government assistance. We are working with the leaders of the farm credit system and representatives of the commercial banking industry to see that the necessary credit is made available. In addition, the $1.375 billion farm operating loan program is the biggest in history. We are continuing to process these loans, which are available in every rural area, and so far we appear to have sufficient program balances to cover the situation.

Question: How many borrowers are currently in the hands of the economic emergency loan program?

Answer: As of September 30, 1981, there were 69,241 borrowers indebted under the economic emergency loan program.

Question: How much in loans is outstanding?

Answer: As of February 28, 1982, $4.8 billion in loans was outstanding under the economic emergency loan program.

WATER AND SEWER FACILITY LOANS

Question: What, if any, alternative financing is available to communities which otherwise would have obtained funding from this program?

Answer: Joint funding of projects with other agencies, private lenders, and state and local governments will be used to any extent possible to offset any reduction in FmHA funding.

Additional emphasis will be placed on working with investment bankers and other commercial credit sources to maximize their participation in the funding of water and sewer projects in rural areas. The FmHA State and District Office network will serve as liaison between rural project officials and the various commercial lenders. Also, FmHA will work with applicant officials to develop the most appropriate facility at the lowest possible cost.

Question: As you know, the statement of the Conference Committee managers accompanying the Farm Bill directs the

Secretary to provide five percent loans to any community with a median family income level less than 80 percent of the state-wide non-metro median family income, and which has health and safety problems. The summary of the projected regulations recently sent to us by the Secretary indicates that the Office of Management and Budget poverty line will continue to be used as the income ceiling for five percent loans. In my state this regulation would prevent any community -- even one with a substantial concentration of low-income people -- from receiving a five percent loan. I understand that you have a problem with existing law regarding the use of 80 percent of the state non-metro median income as the trigger for five percent loans. Is this true, and can you explain this to the Subcommittee?

Answer: Under the present system, there is a large jump from the five percent interest rate to market rate when applicants fail to qualify for the five percent rate. The applicant community may have a low average income, but fail the "need" test. For this reason, we may want to look at another interest rate halfway between the five percent rate and the market rate for applicants that do not qualify for the five percent rate but have a median family income not greater than 85 percent of the non-metropolitan median family income of the state.

(CLERK'S NOTE: Excerpts from the Conference Committee Report on the 1981 Farm Bill (H. Rept. 97-377 follow:)

The conferees intend that the Secretary, in administering the FmHA water and waste disposal loan program (as revised under the Omnibus Budget Reconciliation Act of 1981), consider the community's ability to pay in establishing interest rates for loans made for the purpose of upgrading existing facilities or constructing new facilities as required to meet applicable health or sanitary standards. In addition, any area in which the median family income of the persons to be served is below 80 percent of the State nonmetropolitan median family income should be considered an area that has a significant portion of low income persons to be served by such a facility, and the Secretary should provide loans to such areas with interest rates not to exceed 5 percent.

Also, it is the intent of the conferees, with respect to program, that the Secretary—

(a) act at once to establish the project selection system provided in the conference report on the Omnibus Budget Reconciliation Act of 1981;

(b) for the purpose of targeting 75 percent of fiscal year 1982 grant funds under the water and waste disposal grant program to low income areas, determine that a low income community is one in which the persons to be served have a median family income less than 80 percent of the State nonmetropolitan median income; and

(c) permit agencies (such as county health units) to determine whether a proposed facility is needed to meet applicable health and sanitary standards, irrespective of whether such agencies have enforcement powers to require that such standards be met.

Question: The Farm Bill report language requires that a project selection system be established which provides for annual review and ranking of applications based on three, equally weighted factors: community size, income level and severity of health hazard. I understand that the proposed regulations which you published in January do not provide for any way of comparing projects competing for the very scarce resources available or for any relative weighing of the various priority factors. Is this true, and can you explain way the language of the Farm Bill report has still not been implemented?

Answer: Presently, project selections for water and waste disposal funding are based on criteria which include preference for public bodies, improvements necessary to comply with the Safe Drinking Water Act, low incomes, populations not in excess of 5,500, unanticipated diminution or deterioration of water supply, and inadequate waste disposal supply. A more formalized selection system is being developed for use addressing the requirements in the Farm Bill.

(CLERK'S NOTE: Farm Bill report language referred to above follows:)

Farm Bill Report Language	FmHA Proposal
1. Eligibility for a 5% loan set at 80% of state nonmetropolitan median family income.	1. Eligibility for a 5% loan still still set at OMB Poverty Level. Provision for an intermediate rate of interest (half-way between 5% and market which works out to slightly under 9%) for communities with median incomes no greater than 85% of state nonmetropolitan median income.
2. Targets 75% of grant assistance to communities with median family incomes less than 80% of state nonmetropolitan median family income.	2. Restricts 100% of grant funds to communities with median family incomes no greater than 85% of state nonmetropolitan median family income. No details on implementation procedures or effect on current rules concerning determination of grant rates.
3. Requires establishment of a project selection system which ranks applications for funding on the basis of three, equally weighted criteria: community size, income and existence of health or sanitary hazard.	3. No provision (FmHA did publish proposed regs on 1/19/82 which established priority for projects in "truly rural" communities. However, there are no provisions for actually comparing competing requests on the basis of weighted criteria in order to insure that the neediest are selected for funding).
4. Permit agenices (such as county health units) to determine whether a facility is needed to meet applicable health and sanitary standards, irrespective of whether such agencies have enforcement powers.	4. No provision. (Existing regs published 10/81 requiring certification from agencies with enforcement powers would still stand.)

QUESTIONS SUBMITTED BY SENATOR ANDREWS

LOAN FORECLOSURE

Question: There has been a great deal of criticism of the FmHA this year. Press reports carried many stories to the effect that FmHA was mandated by Washington to increase their number of foreclosures.

While I realize that this has been denied and refuted, sending out a notice to the States indicating the reduction in number of delinquencies you expected each state to accomplish was not exactly a good public relations gimmick. What is the percentage of foreclosures that have taken place so far this year?

Answer: FmHA had farm loans with approximately 261,000 farmers as of September 30, 1981. Our report shows that from October 1, 1981, through February 28, 1982, FmHA had completed liquidation action on 342 accounts. Other lenders having loans with FmHA borrowers under the subordination authorities completed action on 201 borrowers. This is a total of 543 borrowers, about one-fifth of one percent.

Question: How many loans are in the process of foreclosure?

Answer: Our February, 1982, report shows FmHA has foreclosure in process on 3,253 borrowers. Other lenders with loans to FmHA borrowers under the subordination authorities have 705 cases in process. This is a total of 3,958.

Question: How many farmers have voluntarily sold out, because they could not make it?

Answer: Through February, 1982, 1,315 farm borrowers had completed voluntary liquidation because they could not make it or they wanted to leave farming for any number of reasons.

Question: How many farmers went bankrupt?

Answer: Through February, 1982, 1,916 borrowers had filed bankruptcy proceedings.

Question: What is the percentage of FmHA borrowers if you add all of the above categories together? This number would give us an idea of the farmers in real serious trouble.

Answer: The total number of farm borrowers in above categories through February, 1982, is 7,732 which is 2.9 percent of farmers that have loans with FmHA.

FARM OPERATING LOANS

Question: You have requested another increase in operating loans for fiscal year 1983. Do you expect the operating loan funds available for fiscal year 1982 will be sufficient to provide every eligible farmer with the loan he or she needs?

Answer: Based on the present demand level, we believe the operating loan funds available for FY 1982 are adequate to meet the needs of eligible applicants. We are making a strong effort to assist our present borrowers in obtaining a portion or all of their credit needs from local lenders. If necessary, we will subordinate our security position.

ECONOMIC EMERGENCY LOANS

Question: Will you release the $600 million in economic emergency loans if the operating loan funds are not enough?

Answer: The Secretary is watching the situation very closely and is working with representatives of the farm credit system and the commercial banking industry to see that sufficient agricultural credit is available to farmers. The economic emergency loan program extended by Congress in the Farm Bill is only one tool. However, as of now, sufficient credit is being made available for our eligible borrowers through the farm ownership loan program and the emergency disaster loan program.

Question: Under the regulations which would cover the economic emergency loans which were just published by the Department, just who would qualify for one of these loans?

Answer: The loans would be made available to presently indebted insured economic emergency loan borrowers in those selected states that have been designated by the Secretary of Agriculture and who are unable to obtain credit from other lenders with or without a subordination of FmHA's lien position; are unable to obtain an FmHA operating loan; and are unable to obtain an FmHA emergency disaster loan.

Guaranteed economic emergency loans would also be made available in those selected states that have been designated by the Secretary of Agriculture. These loans would be made to new applicants and to presently indebted guaranteed economic emergency borrowers who cannot obtain sufficient credit from other lending sources without an FmHA guarantee.

INTEREST SUBSIDIES

Question: In this time of disastrous economic conditions for our farmers, why are you asking for a discontinuation of the interest subsidies on operating loans to limited resource borrowers?

Answer: Heavily subsidized government loan programs such as the limited resource loan program are costly to the Government and counter productive to resolving the basic economic problem facing farmers today. We believe interest rates will decline when the economy begins to improve later this year. We also believe that farm profits will improve when production is brought in line with demand. Whenever production is subsidized in excess of the demand it has the effect of depressing farm profits and inflating the general economy.

Question: How will these farmers make it with today's interest rate?

Answer: We believe that limited resource borrowers can be properly benefited by our programs without extending credit at a highly subsidized interest rate. The FmHA will continue its financial assistance to these borrowers through its non-subsidized loan programs. These programs provide for extended repayment terms, deferred installments and other actions which apply to the individual case. Limited resource farmers will receive the credit and management counseling which they need in order to establish viable and productive farm operations.

Question: You have requested $682 million to reimburse the Agricultural Credit Insurance Fund and $336 million to reimburse the Rural Development Insurance Fund for interest subsidies and losses. How much of this money is for interest subsidies?

Answer: The request includes interest subsidies of $599.1 million for the Agricultural Credit Insurance Fund and $292.6 million for the Rural Development Insurance Fund.

Question: How much is for losses?

Answer: The Agricultural Credit Insurance Fund request includes $83 million and the Rural Development Insurance Fund includes $19.6 million for other losses incurred in fiscal year 1981. The Rural Development Insurance Fund request also includes $24 million for unreimbursed prior year losses that was not appropriated in fiscal year 1982.

HOUSING PROGRAM REDUCTION

Question: You are calling for drastic reductions in all of the housing loan programs -- close to $3 billion. As you are well aware, our housing industry is in deep trouble, and now you are cutting out a credit source for moderate borrowers. Who do you expect to fill this gap?

Answer: As you know, the President has proposed an Economic Recovery Program to fight the effects of inflation and provide incentives to increase productivity. An important element in this program is the reduction of Federal borrowing which has dominated credit markets for the last few years. Although recovery, especially in the housing industry, is proving more difficult than hoped for initially, we still feel that a normalization of credit markets by reducing the Federal domination is the best way to make more credit available and promote economic recovery on a real sustainable basis.

Question: Won't the ultimate victim be the rural resident who cannot find or afford commercial credit?

Answer: FmHA still plans to provide substantial mortgage credit to those low-income rural residents who are unable to find or afford commercial credit. We fully expect, as the President's Economic Recovery Program takes effect, that private sector lenders will be able to take up some of the slack created by the proposed budget reductions in FY 1983.

QUESTIONS SUBMITTED BY SENATOR MATTINGLY

Question: What steps do you plan to take--or what steps does the Congress need to take to halt the absurd practice of encouraging inefficiency and overproduction with cheap loans?

Answer: One of our objectives is to assist eligible applicants to become successfully established in farming. It is definitely not our intent to finance inefficiency, but to assist the inefficient operator to improve his capabilities through supervision and management advice. Current limited resource loans are regularly reviewed and the interest rates are increased consistent with the borrower's ability to pay. Borrowers do normally increase efficiency with supervision.

Question: Can you provide us today--or will you provide us within the next few days--with your recommendations which would achieve an overall reduction in the requested budget of FmHA of 10 percent. What I am requesting is for you to review your budget and tell us just exactly where you could make reductions--and the amount of such reductions--if you were mandated by the Congress to make such cuts in your present request.

Answer: Senator, before this budget request was sent up to you, we examined every program. We reduced the scope of some programs and completely eliminated others. The total program level is reduced 38 percent below the level estimated for FY 1982. This is a substantial reduction considering the fact that the affects of inflation, which hit the farmer and small home buyer perhaps more than anyone else, probably would increase that reduction by another 10-12 percent. We would prefer to continue to monitor the situation before making a reestimate of program needs in these areas.

QUESTIONS SUBMITTED BY SENATOR STENNIS

PROCESSING OF FARM LOANS

Question: Mr. Shuman, several weeks ago you and I had a very good conversation over the phone about some of the Farmers Home Administration problems in Mississippi. During that conversation I told you that our farmers were having problems getting prompt attention from Farmers Home Administration officials with regard to their loan applications. You said you would make an investigation into this problem and work to see that the applications were processed more expediently. I would like to know what you found out during your investigation, if anything, and what is being done to help these farmers who are pressed for time because of the need to begin their spring planting?

Answer: We found that a large number of farmers who received loans last year have not yet reapplied this year. Applications on hand are being processed in a timely manner. Our staff has actively encouraged farmers to apply early. However, it appears we may receive a large number of applications over a short period of time again this year. We have implemented a system to substantially decrease the loan processing time. Loan checks are ordered through a computer terminal located in the State Office in

Jackson, Mississippi. This method of ordering checks can save approximately 3 weeks.

Question: What effect will the reduction in the budget for FY 1983 have on this problem? Will there be a decrease in staff who handle these loan applications?

Answer: With the decrease in new loan making activity in some programs, we would expect to have more staff time available to process the individual loan applications.

RURAL HOUSING PROGRAMS

Question: I note that the Administration's budget request calls for a 67 percent reduction in rural housing loans to individuals with low-to-moderate incomes. In the Department of Agriculture's 1983 budget explanatory note the justification for this reduction is very vague and I quote,

> "These reductions are proposed in an effort to lessen the size and scope of Federal credit programs and their impacts on private credit markets through the increased need for U.S. Treasury financing."

What data have you collected, if any, that verifies that the private credit market will be able to provide housing for low-to-moderate income individuals at below-the-market mortgage rates?

Answer: FmHA does not assert that the private credit market will provide housing for low-to-moderate income families at below-the-market mortgage rates. We will continue to offer substantial low-income housing programs to those individuals in truly rural communities. However, we are hopeful that as the President's Economic Recovery Program takes effect, the private credit market will be able to increase their role in rural areas.

Question: Did you make any estimates for the demand for this type of housing as a basis for your decision for reducing the program? Are you implying with these reductions that the demand for rural housing will decrease significantly in 1983? If so, where did you get your information? If not, who do you suppose will meet this need for low-interest housing?

Answer: The proposed reduction does not imply a reduction in demand. However, if the President's program for economic recovery does create an environment for sustainable and noninflationary growth, and Federal demands on capital markets decrease, more investment capital will be available for all types of private sector lending activities. Even though the economic recovery, particularly in the housing industry, has not made as much progress as we had hoped, we do expect more credit to be available in rural areas starting in 1983. We will continue to offer a substantial program in the most rural areas where financial institutions are not in place.

QUESTIONS SUBMITTED BY SENATOR BURDICK

LOAN DELINQUENCIES

Question: I have received several letters from constituents who are concerned about the manner in which the Farmers Home Administration is dealing with delinquent loans. I am informed that the North Dakota FmHA has been directed to reduce the State's delinquent accounts -- of which there are about 3,126 -- by 23 percent as of this month. What methods -- other than foreclosure -- does the FmHA use to eliminate these delinquent accounts?

Answer: We treat each delinquent and problem borrower on an individual case basis. In accordance with Secretary Block's statement of January 21, 1982, we will find ways to stay with the borrower another year if they have acted in good faith with the Agency; made an honest effort to keep current in payments; applied recommended production and management practices; maintained and accounted for security property, and have a reasonable chance to repay any new loan for 1982 production purposes.

We will reschedule, reamortize, and defer present loans in order to give each borrower the best possible chance to succeed when there is a good faith working relationship.

QUESTIONS SUBMITTED BY SENATOR LEAHY

RURAL DEVELOPMENT INSURANCE FUND

Question: When administering the Rural Development Insurance Fund, what definition of "rural" does the Farmer's Home Administration use?

Answer: The definition of "rural" and "rural area" used by the FmHA is found in section 306(a)(7) of the Consolidated Farm and Rural Development Act, as amended. For water and waste loans the terms "rural" and "rural area" inlcude any area in any city or town which has a population of 10,000 or less inhabitants. For community facility loans, the limitation is 20,000 inhabitants. For business and industry loans the rural area must include cities or towns of under 50,000 in population with a density of 100 persons or less per square mile.

Question: What percentage of the loan funds available under the three programs of the Rural Development Insurance Fund--water and waste disposal, community facility and business and industrial programs--go to rural areas, according to the FmHA definition?

Answer: All loan funds available through the Rural Development Insurance Fund go to projects serving rural areas, as defined by the Consolidated Farm and Rural Development Act.

PROJECT SELECTION CRITERIA

Question: Does FmHA have a specific project selection system for use in administering the three programs of the RDIF? If not, why not? If so, what criteria does FmHA employ for each of the three programs in funding decisions?

Answer: Presently all three programs of the RDIF select projects based on criteria which are identified in the program regulations. The criteria for selecting community facility projects considers type of organization, and type of service. For example, public bodies are given preference over nonprofit organizations and public safety projects such as fire stations are given preference over health care facilities such as clinics. Presently, we are developing a new, more formal project selection system to be used by State Offices to prioritize projects for funding. This new system will include additional criteria which will take into account such items as location, income of the service area, need to meet a health or sanitary standard, and level of financing provided by local and state sources.

Selection criteria for water and waste disposal loans include preference for public bodies, improvements necessary to comply with the Safe Drinking Water Act, low incomes, populations not in excess of 5,500, unanticipated diminution or deterioration of water supply, and inadequate waste disposal capability.

A more formalized selection system is also being developed for use by the States to prioritize projects for processing water and waste disposal loans within the state.

Under the business and industry loan programs, priority is given to projects located in rural areas which have a population of 25,000 or less. FmHA will cooperate with appropriate State agencies in strategies for development of its rural areas and on equal applications, veterans are given priority. Other priorities listed by importance are those projects which will save existing jobs; those projects which will enlarge, extend, or otherwise improve existing business and industry; those projects which will create the highest number of permanent employment opportunities; and those projects which will contribute to the overall economic stability of the rural areas but generate little or no permanent employment opportunities beyond the entrepreneur himself.

RDIF PROJECTS FUNDED

Question: Would you provide examples from Fiscal Year 1981 of the kinds of projects FmHA has funded with the programs of the RDIF?

Answer: The kind of projects funded under the community facility loan program in fiscal year 1981 are public safety type projects, which include fire stations, fire trucks and emergency vehicles; health care facilities which include loans to hospitals for renovations and repairs to meet life safety codes, nursing homes, out patient clinics and facilities for the retarded; public service facilities which include projects such as town halls, community libraries, street improvements, and detention centers.

Under the water and waste disposal loan program, projects for new and improved water systems, sewers, disposal systems and a combination of water and sewer disposal systems were funded.

The business and industry loan program has funded such projects as a mining company, a farm equipment manufacturer, a clothing manufacturer, an electronic computer equipment company, a paper manufacturer and a truck and bus body manufacturer.

Question: In Fiscal Year 1982, how many loans have been made under each of the three programs of the RDIF to date? At what interest rate have these loans been made?

Answer: As of March 27, 1982, 526 water and waste loans were made for a total of $199.9 million. These included 36 loans totaling $13.3 million at the five percent interest rate, 40 loans for $16.8 million at 12.25 percent, and 450 loans totaling $169.8 million at 11.375 percent.

As of March 17, 1982, 117 community facility loans were made for a total of $34.7 million. These included two loans for $1.8 million at the five percent interest rate, 34 loans for $7.9 million at 12.25 percent, and 81 loans totaling $25.0 million at 11.375 percent.

As of March 29, 1982, two business and industry loan guarantees were obligated for a total of $3.4 million at a 16 percent interest rate. One loan was at a fixed interest rate and the other was at a variable interest rate.

Question: As justification for the severe reduction in the loan authority for each of these programs, you have said that the private sector will assume the burden of providing credit for water and waste disposal systems, community facilities, and business development. Do you have documented evidence of this? If so, what does it consist of?

Answer: FmHA continues to emphasize the importance of joint funding with private lenders in order to realize maximum benefits of the available resources for water and waste and community facility loan programs. The Agency has also established both at the National Office level and at the state level, liaison with several large lenders that might provide other credit sources for rural communities.

The business and industry loan program is a guaranteed loan program and as such, the lender must provide the funds for any loans made to the borrower. The guarantee, however, does substantially reduce the risk that the lender has in the credit. We believe that rural lenders can utilize their correspondents to provide funding for credit worthy businesses rather than using the secondary market provisions of the business and industry loan program. In addition, state development authorities and public-body-sponsored industrial revenue bonds can be utilized.

RURAL ELECTRIFICATION ADMINISTRATION

OFFICE OF RURAL DEVELOPMENT POLICY

STATEMENTS OF HAROLD V. HUNTER, ADMINISTRATOR, RURAL ELECTRIFICATION ADMINISTRATION, AND WILLARD PHILLIPS, JR., ACTING DIRECTOR, OFFICE OF RURAL DEVELOPMENT POLICY

ACCOMPANIED BY:

- FRANK W. NAYLOR, JR., UNDER SECRETARY, SMALL COMMUNITY AND RURAL DEVELOPMENT
- JACK VAN MARK, DEPUTY ADMINISTRATOR, REA
- JOSEPH VELLONE, ACTING ASSISTANT ADMINISTRATOR—ADMINISTRATION, REA
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- MICHAEL W. KELLY, ASSISTANT GENERAL COUNSEL, OFFICE OF GENERAL COUNSEL
- JAMES C. ANDERSON, ACTING DIRECTOR, BUDGET DIVISION, FARMERS HOME ADMINISTRATION
- ROBERT SHERMAN, DEPUTY BUDGET OFFICER, DEPARTMENT OF AGRICULTURE

ACTIVITIES OF REA

Senator COCHRAN. We will now hear from our second panel which will consist of spokesmen for the Rural Electrification Administration and the Office of Rural Development Policy, within the Department of Agriculture.

The Rural Electrification Administration makes loans to finance electric and telephone service in rural areas. It also provides management and technical assistance to loan recipients.

As part of the Administration's effort to reduce Federal lending activities, Rural Electrification Administration programs are cut back by $885 million in the fiscal year 1983 budget request. This figure includes proposed reductions of $710 million in rural electrification loans and $175 million in rural telephone loans. These proposed cuts are in addition to a $1 billion reduction requested in the budget to be implemented in fiscal year 1982.

The Office of Rural Development Policy is a new office created by the Secretary of Agriculture last year. The Department's rural development policy function, which formerly was in the Farmers Home Administration, is now the responsibility of this new office.

The office carries out policy development and coordination functions for rural development. It utilizes the resources of all Federal departments and agencies in an effort to coordinate rural development programs with State and local governments. Its activities include coordinating the annual preparation and implementation of a national rural development strategy, which identifies emerging rural issues, develops policy guidelines, and encourages initiatives by State and local governments, as well as by the private sector.

INTRODUCTION

I understand we have with us this morning accompanying Secretary Naylor, Harold V. Hunter, Administrator of the Rural Electrification Administration; Bill Phillips, Jr., Acting Director of the Office of Rural Development Policy, and Bob Sherman, Deputy Budget Officer.

PREPARED STATEMENTS

We have statements from Mr. Hunter and Mr. Phillips which we will make a part of the record at this point, as well as biographical sketches for witnesses appearing for the first time.

[The statements follow:]

PREPARED STATEMENT OF WILLARD (BILL) PHILLIPS, JR.
ACTING DIRECTOR
OFFICE OF RURAL DEVELOPMENT POLICY

Mr. Chairman and Members of the Committee, I appreciate this opportunity to appear before you to discuss the Office of Rural Development Policy's fiscal year 1983 appropriations request.

This office was created to allow the best possible response to Congress' expressed wishes regarding rural development leadership and coordination for this country.

Secretary Block formed this office by transferring the rural development policy function and staff from the Farmers Home Administration to an office reporting directly to the Under Secretary for Small Community and Rural Development, a position called for in the Rural Development Policy Act of 1980. Since our organizational arrangement was restructured to meet the legislatively mandated requirements, no new funding was required to establish the Office.

The Secretary saw the reorganization as the best way to respond to the will of the Congress. Specifically, the 1980 Act calls for a level of policy coordination that makes it imperative for the rural policy group to work more independently across agency lines than when it was lodged within a program agency. Elevation of the policy function and placement of it within the separate Office of Rural Development Policy have already enabled us to have greater success working with the primary agencies concerned with rural development within USDA. We are beginning to find that working with other Federal departments is also much more feasible from our new position. We know that the former lack of coordination progress was a great concern of the Congress when it was developing the Rural Development Policy Act of 1980.

Today, as we return responsibilities and resources to the States, it is clear that the need for improved coordination is greater than ever. In addition, the 1980 Act and its predecessors recognized an equally important need to work with State and local government and with the private sector. These kinds of coordination are also more important than ever as we pursue rural development in the 1980's.

When the Secretary created the Office of Rural Development Policy, he noted a specific programmatic reason for his action, and I'd like to mention that now for it has a direct bearing on our budget request. He said the Office is designed to seek a "practical strategy for responding to the diverse problems and opportunities in rural America." This was a reference to the Policy Act's directive that the Secretary establish a process for formulating a national rural development strategy and for updating it annually. The Secretary is directed in the Act to take many specific actions and to take into consideration many specific factors in the course of preparing the strategy and annual updates.

For example, the strategy is to take into consideration national conditions, needs, and policies covering numerous and wide-ranging functional and programmatic areas. These include business and employment, health care, education, energy utilization and availability, housing, transportation, water supplies, sewage and solid waste disposal management systems, and public and private credit availabililty, including credit for job creation and maintenance.

In another directive, the Act requires the Secretary to develop and maintain a process for assessing local, substate, State, and multistate rural development needs, goals, objectives, and recommendations. He is to take these findings into account in preparing the strategy.

In addition to defining the extensive functional and geographical dimensions of the required rural development strategy, the Act directs the Secretary to systematically review Federal programs to identify rural-urban inequities in program benefits and any factors that may inhibit rural program delivery. Similarly precise language is included in the directive that the Secretary hold public hearings to gain input for the strategy and again in the directives on such matters as strategy implementation and annual updating.

I believe you will agree that these provisions clearly call for a significant effort.

You will note that the appropriations request for the Office of Rural Development Policy in fiscal year 1983 is $626,000 above the FY 1982 level. Some $500,000 of this will be used to simultaneously carry out four tasks during the year: first, we will complete the first national rural development strategy; second, we will be refining the process for systematically obtaining Federal, State, and local participation in the ongoing strategy formulation and updating process; third, we will assist in implementing the strategy prepared for FY 1983; and fourth, we will update that strategy for FY 1984 as required by the law.

The remaining part of the increase is for pay costs incurred in FY 1982 and for increased operating costs for support items.

Mr. Chairman, I do appreciate this opportunity to appear before your committee and before I close I would like to summarize.

This appropriations request is solely to enable us to respond to the directives of the Congress regarding the Secretary's leadership and coordination responsibilities and the formulation and annual updating of a national rural development strategy.

The Office of Rural Development is not a new unit. While the activities of the Office have changed in response to recent legislation, the basic coordination responsibility is not new.

We know the Congress has been concerned for many years over the lack of coordination among Federal programs, among Federal, State and local government at all levels, and between Federal programs and private sector initiatives. The Secretary of Agriculture is equally concerned. You gave him the responsibility and the challenge of addressing this problem for rural development purposes. To proceed with this job, he has chosen to elevate the rural policy function to the proper level and to place it in an organizational position that will allow him to discharge his responsibilities with more success.

At this time, I will be glad to answer any questions the Committee may have.

PREPARED STATEMENT OF HAROLD V. HUNTER
ADMINISTRATOR

RURAL ELECTRIFICATION ADMINISTRATION

Mr. Chairman and members of the Committee. It is indeed a privilege and an honor to appear before you in support of the Rural Electrification Administration programs for fiscal year 1983.

The Role of the Rural Electrification Administration

Over the forty-seven years since its inception, REA has financed more than 2,000 electric and telephone organizations serving more than 14 million consumers and subscribers. It has helped link an electric distribution grid work that criss-crosses the entire Nation. It has helped connect remote communities with a communication system that literally spans the entire globe.

The 1983 Budget proposals for REA reflect the Administration's concern with overall Federal spending and growing budget deficits. Total Federal credit demand is absorbing too much available investment capital and, in so doing, is responsible for much of the upward pressure on interest rates. This demand for funds by the Federal Government, including the budget deficit, off-budget borrowing, guaranteed loans, and Federally-sponsored borrowing soared from $79 billion in 1977 to $142 billion in 1981, absorbing 35 percent of the total credit raised in domestic credit markets. While REA electric and telephone loan programs are "off-budget," the role played by the Government in providing these funds contributes to the disruption of the normal channels of the financial markets, and also contributes to the historically high interest rates on the open markets.

The 1983 budget does not propose to abandon rural electric and telephone systems, but it does expect them to obtain a larger portion of their financing needs from non-Government sources. While some borrower's rates might increase disproportionately if they were required to depend entirely on the private sector for financing, a mix of REA funds and outside financing should provide the key to reducing the Federal Government's role in the credit market, without causing excessive rate increases.

The 1983 Budget Proposals

The 1983 budget proposals provide for an insured program of $625 million for electric loans, ($225 million less than in 1982), and $75 million for telephone loans ($175 million less than in 1982). The 1983 budget also proposes $3,615 million for electric loan guarantees ($485 million less than in 1982), and $145 million for telephone loan guarantees (the same as in 1982). Rural Telephone Bank loans are estimated at $185 million (the same as in 1982).

Although the total program calls for a reduction of $885 million from the levels projected for 1982, the ability of rural electric and telephone systems to provide service should not be adversely affected because substantial amounts of private capital at market rates are available to supplement the REA loan programs. Borrowers are being encouraged to utilize non-REA financing, including tax-free pollution control bonds, to meet an increased portion of their capital requirements. We are confident that adequate credit will be available.

The REA Administrative Budget

The 1983 budget requests $30,340,000 for the administrative costs of the Agency. This $667,000 increase over fiscal year 1982 is needed to cover the continuing effects of the October 1981 pay raise. Since much of the cost of the 1981 pay raise was absorbed in fiscal year 1982 through deferment of other necessary expenditures, this small increase is needed in 1983 to continue current levels of operation and loan administration.

Employment levels in 1983 will be reduced by ten staff-years from the 1982 levels. This level will be adequate to effectively carry out the programs as provided in the budget.

In conclusion I think this budget is responsive to both the capital needs of REA borrowers and the President's economic recovery program. When the President's program is fully implemented and the Government's role in the financial market is pared down to a level more consistent with the need, interest rates will decline. All sectors of the American economy, including rural electric and telephone systems, will benefit by the reduced Federal presence in the market place. Gentlemen, I strongly urge you to consider the President's program as it relates to the REA programs.

This is the end of my prepared remarks. I will be happy to answer any questions you might have.

BIOGRAPHICAL SKETCHES

WILLARD (BILL) PHILLIPS JR.

Willard (Bill) Phillips Jr. was appointed Acting Director of the Office of Rural Development Policy in February 1982 after having served as Deputy Director since November 1981.

Before joining the Department of Agriculture, Phillips, 40, was a Legislative Specialist with the United States Trade Representative. He previously had served as Administrative Assistant to Rep. Don Ritter of Pennsylvania and former Reps. Robert W. Kasten of Wisconsin and Wilmer D. (Vinegar Bend) Mizell of North Carolina.

Phillips is a former Acting Deputy Assistant Secretary of Commerce at the Economic Development Administration and Special Assistant at the Appalachian Regional Commission.

A native of Elkins, West Virginia, Phillips holds degrees from Potomac State College and West Virginia Wesleyan College.

He and Mrs. Phillips have three children. The Phillips reside in Bethesda, Maryland.

HAROLD V. HUNTER

Harold V. Hunter, Administrator of the Rural Electrification Administration (REA), was nominated by President Reagan to head the Federal agency on June 15, 1981. He was confirmed by the U.S. Senate to become the tenth REA Administrator on July 31, 1981 and took the oath of office on August 6, 1981.

Mr. Hunter had owned and operated HVH farms at Waukomis in Garfield County in association with his son, Losco and son-in-law John Loewen prior to assuming the position of REA Administrator. The HVH Farms operation, a 1,780 acre alfalfa and wheat-producing enterprise, is renown for the rearing of high-quality, registered Polled Hereford beef cattle. The HVH herd, raised for breeding stock, and developed with selective care over a period of more than 40 years, was begun by Mr. Hunter when he obtained a small commercial registered herd from his father, V. J. Hunter, in 1935.

Beginning in 1962, Mr. Hunter was elected to four successive two-year terms in the Oklahoma House of Representatives. After that first election, he was returned by Garfield County voters to Oklahoma City in 1964, 1966 and 1968, each time without opposition. He served as assistant minority floor leader in the House of Representatives from 1967 to 1969. In a statewide poll of news media editors, Hunter was ranked among the "Ten Most Effective" members of the House of Representatives by the United Press International news wire service. Mr. Hunter also sat on the 15-member executive committee of the Legislative Council while assistant minority leader and at the request of the then Governor Dewey Bartlett, served as Chairman of the Governor's Task Force on Agribusiness Industrial Development Activities for Rural Development.

He resigned from the Oklahoma House of Representatives in June of 1969 to accept an appointment by U.S. Secretary of Agriculture Clifford M. Hardin as State Executive Director of the Agricultural Stabilization and Conservation Service (ASCS) in Oklahoma. In this post, Hunter administered and directed a program staff at Stillwater as well as five district and 77 county offices with a combined staff of more than 300 personnel. He was the first State ASCS Director in the United States to receive the "Administrator's Award for Excellence," presented in 1975 under Agriculture Secretary Earl L. Butz. Hunter served as ASCS Executive Director in Oklahoma nearly eight years, leaving the post in 1977.

In 1979, Hunter was elected Chairman of the Oklahoma Republican State Central Committee, and in that capacity also served as a member of the Republican National Committee.

Mr. Hunter has served on industry and government-sponsored world trade tours, including a 1973 Department of State mission to Afghanistan to study and exchange information on that country's wheat stabilization program. In 1972 he represented the United States as delegate to the World Hereford Congress at the Union of South Africa.

In 1972 he was Chairman of the Board of Directors of the American Polled Hereford Association and was its Vice Chairman in 1971.

Hunter and his family have also received several local and state awards for service to agriculture and rural life, including Farm Family of the Year from the Garfield County Farm Bureau, membership in the Oklahoma Agriculture Hall of Fame, Meritorious Service Award by the 4-H of Oklahoma, Certificate of Appreciation from the Oklahoma Cattlemen's Association, Block and Bridle Club Honorary Membership and the Honorary State Farmers Degree from the Oklahoma Future Farmers of America.

He is a member of the American Farm Bureau Federation, the National Grange, Masonic Lodge and Lions Club and is a director of the Waukomis State Bank. He serves as a deacon in the Emmanuel Baptist Church, Enid, Oklahoma.

Mr. Hunter is married to the former Ruth Irene Hyde and the couple has two children, a son, Losco, engaged in the operation of HVH Farms, and a daughter, Mrs. John (Ramona) Loewen. Mr. Loewen is also involved in the family farm operations. The Hunters have three grandsons and two granddaughters.

JACK VAN MARK

Jack Van Mark is Deputy Administrator of the Rural Electrification Administration.

Mr. Van Mark brings extensive experience in rural electrification and other Department of Agriculture programs to the REA position. From 1974 to 1978, he was REA's Legislative and Interagency Advisor. Prior to that position, he was Staff Assistant with the Agriculture Department's Agriculture Stabilization and Conservation Service (ASCS), Western Region. Earlier, he was ASCS Program Specialist in Wyoming and Wyoming State ASCS Committeeman.

Born on a farm in Goshen County, Wyoming, Mr. Van Mark currently farms about 5,000 acres of wheatland there. In 1966, he was selected by the Junior Chamber of Commerce as the Outstanding Young Farmer in Wyoming.

Mr. Van Mark attended public schools in Torrington, Wyoming, and holds a B. S. degree in geology from the University of Wyoming. During the Korean War he served in the U. S. Army, and was discharged as a Sgt. Major of a training battalion.

In 1963, he was elected to the Wyoming House of Representatives and served for six years. He was a member of the Wyoming Governor's Agricultural Advisory Council, and served as President of the Wyoming Wheat Growers Association, on the Board of the Goshen County Farm Bureau, and on the Board of President's Associates at Bethel College in St. Paul, Minnesota.

He is married to the former Hanna Benzel, and they have four daughters, one of whom is a graduate of Bethel College, and two are presently students there.

THOMAS M. SCANLON

Mr. Scanlon is the Director, Office of Budget, of REA, where he is responsible for carrying out the agency's program of budgetary and financial management.

Mr. Scanlon joined REA in July 1968 as Operations Trainee in its electric program and moved to the Office of Budget in August 1970 as a budget analyst. In 1976, he was appointed Assistant Director, where he remained until he was selected in August 1981 for his present position.

He has a B. A. in Economics from Merrimack College in North Andover, Mass. Mr. Scanlon lives in Alexandria, Va.

INTRODUCTION OF WITNESSES

Senator COCHRAN. We want to welcome all of you to the subcommittee and ask the Secretary if he would like to introduce others who may be accompanying Mr. Hunter and Mr. Phillips and to proceed with any introductory remarks he might want to make at this point.

Mr. NAYLOR. Thank you, Mr. Chairman.

If it meets with your and the committee's approval, I suggest we might proceed to the REA section of the budget first and then go to the Office of Rural Development Policy.

I am very pleased to have with me this morning the Administrator of one agency and the Acting Director of the other. Harold Hunter, Administrator of the Rural Electrification Administration, had a long and distinguished service both in government and in farming and ranching, before being associated with the rural electric and telephone programs. I think he has served us with distinction, and I am pleased we were able to attract him to this most difficult and demanding post.

Mr. Phillips has been with us a relatively short period of time, but he is also steeped in the rural programs of this country and has had widespread congressional experience in addition to experience with rural activities, principally in the South.

I think they are both exceedingly well qualified for the positions they hold.

I have no other comments at this time. Both of them have opening comments which, I feel, will be more pertinent. With your permission, Mr. Chairman, I will ask Mr. Hunter to start on behalf of the Rural Electrification Administration and to introduce the staff members with him and make any comments he wishes.

Senator COCHRAN. Thank you, Mr. Secretary.

Mr. Hunter, you may proceed.

Mr. HUNTER. Thank you, Mr. Chairman and members of the committee. I do have with me my Deputy Administrator, Jack Van Mark, who is a wheat farmer from the State of Wyoming; he is filling that position very appropriately. As far as staff assistants, we have with us, to my left, and next to Mr. Van Mark, Mr. Joe Zoller, who is Assistant Administrator for the electric program of our organization. To his left is John Arnesen. John is Assistant Administrator for the telephone program. To our right is Tom Scanlon, who is head of our Budget Office. We do have other staff people within the audience.

A SUMMARY OF STATEMENT

I will very briefly touch upon the things that you already have before you in the prepared statement. It does make reference to the 47 year history of this agency and, of course, that is something, I think, all who have had any association with it, including this committee, take pride in. REA has financed some 2,000 electric and telephone organizations, with some 14 million consumers. It has brought together the remote communities of rural America in an electric distribution grid that crosses the Nation and a bridgework of communications that reaches throughout the world.

The 1983 budget proposal recognizes the importance of this agency and its functions, and at the same time, recognizes that the intrusion of the Federal Government in the credit markets and its processes, tend to bring about high interest rates and also distortion of the operation of the credit system. So we find ourselves faced with a situation that these two interests and these two needs must be met and considered as we look at the REA programs.

One of the things that sometimes tends to distort the philosophical consideration of the budget proposals concerning REA is the fact that most of its programs fall within what we call the off-budget area. The fact that it is off-budget does not change the fact that it does increase the magnitude of the Federal debt now at over $1 trillion, the largest in our history. Beyond that, it also disrupts the normal functions of the financial markets.

The 1983 budget proposals do not, in any sense, indicate an intention to abandon the REA programs. It merely indicates that we should place greater emphasis on nongovernmental sources to provide a better mix of REA funds and outside financing and reduce the Federal Government's role in the credit market.

Specifically, the 1983 budget proposals provide an insured program of $625 million for electric loans, $225 million less than for 1982; and $75 million for telephone loans, which is $175 million less than for 1982. The 1983 budget also proposes $3.615 billion for electric loan guarantees, and that is $485 million less than 1982; $145 million for telephone loan guarantees which is the same as 1982; and $185 million for rural telephone bank loans, which is also the same as 1982. The reduction you have remarked on would provide a 1983 level $885 million below the level projected for 1982.

The option that we are presenting here is one of a greater utilization of tax-free pollution control bonds and other types of financing from nongovernmental sources. By diverting some borrower requirements from the governmental sources of credit to the private sector, the ability to meet what we consider to be the needs of the REA program is enhanced.

Looking at our administrative budget for just a moment, the request for 1983, $30,440,000 is a $667,000 increase over fiscal year 1982. This reflects the need to cover the continuing effects of the October, 1981 pay raise. The 1981 pay raise was absorbed in fiscal year 1982 by deferral of other expenses and effecting economies.

Employment levels that we are recommending for 1983 represent a reduction of 10 staff years from the 1982 level.

We feel very strongly that this budget is responsive to the needs of the agency and that we can meet the capital needs of REA borrowers by the inclusion of greater amounts of nongovernmental moneys to supplement the funding that would come from ongoing programs. We feel it is in the best long-term interest of the economy and this Nation. We present it to you and request its support by this very important committee.

We would be glad to respond to any questions.

Senator COCHRAN. Thank you, Mr. Hunter.

PREPARED STATEMENT OF SENATOR ABDNOR

At the outset I want to mention that Senator Abdnor of South Dakota, who is a very important member of this subcommittee, is not able to attend today because of his responsibility as chairman of the Appropriations Subcommittee on Treasury, Postal Service and General Government. He has some remarks, and I will ask they be placed in the record at this point.

[The statement of Senator Abdnor follows:]

PREPARED STATEMENT OF HON. JAMES ABDNOR, U.S. SENATOR FROM SOUTH DAKOTA

Mr. Chairman, I regret that I cannot attend today as my Treasury, Postal Service Subcommittee requires my presence.

I would like to relay my concerns for the programs before the Agriculture Appropriations Subcommittee. One of my priorities in the Senate has been to see the Rural Electrification Administration programs continue to assist in bringing electrical power and telephone service to our rural areas. REA has been instrumental in spanning the great expanses of our rural areas and actually narrowing those expanses.

The Farmers Home Administration programs especially in relation to farm loans are also of concern to me. Many farmers are losing their operations out there, and I hope that the Farmers Home Administration is doing everything possible to keep them on their places. It is my hope that these tough times will pass and that this threat to our agricultural productivity will diminish.

Again, Mr. Chairman, my regrets, and I hope that your meeting today is most productive.

DECREASE IN LENDING PROGRAMS FOR REA

Senator COCHRAN. Mr. Hunter, I notice we have a request for a substantial decrease in the lending programs of the Rural Electrification Administration. Given the high rates of interest that exist in the open market and the fact that there is a $1.5 billion backlog of applications before the REA office at this time, how can we justify cutting back the program?

Mr. HUNTER. We can justify it on the basis that we see other sources we can turn to, and have been turning to, to utilize greater amounts of nongovernmental moneys for financing. We do feel that the amounts we are proposing at this time will meet the needs of the program and will help the economy benefit from a long-term decrease in interest rates, expected with the success of the President's program.

Senator COCHRAN. I am assuming that the rural electric cooperatives and associations around the country are going to continue to try to meet the increasing demands for electrical power that exist in rural America, and with that assumption, doesn't this mean if we approve this cutback in the lending program that utility rates for rural customers are going to necessarily be increased by a substantial percent?

Mr. HUNTER. One of the interesting things is that the data we have available to us at the present time indicate a leveling off of the increases that have taken place in past years in the utilization of electric power. We have, for instance, some 93 bellweather electric systems which report to us each year the preceding year's amount of electricity used in those systems. These systems have proved to be relatively credible as an index of what is happening throughout the country. This past year, 1981, these systems show an increase of 1.14 percent, in electricity usage. This contrasts with an increase in the preceding year of over 5 percent. The growth in usage is considerably less than in preceding years. I will grant, readily, that this may or may not be a permanent change in the growth pattern. But certainly the immediate picture is one of a considerably decreased growth in electrical power consumption. There is a very substantial need to meet the continuing normal capital growth requirement that exists even without increased use of kilowatt-hours.

ALTERNATIVE SOURCES OF FUNDING

Senator COCHRAN. You mentioned in your statement alternative sources of financing that would be available. What are the sources, and do you know what the financial impact will be on customers and consumers in the rural areas if these alternative sources are utilized?

Mr. HUNTER. Of course, most of the costs that are involved in providing electric power to rural America exist in the power supply area, in the building of generating plants. Even in those areas we are finding a receptiveness to other types of financing and other types of lenders. We had, for instance, a recent borrower with total capital need of $1.3 billion. Of that amount, $900 million was provided by an REA-guaranteed loan and the rest was provided through pollution control and other types of leveraged activities without a Government guarantee. The package was put together and successfully negotiated. So we do feel that what we are proposing in the way of utilization of greater amounts of nongovernmental moneys is not just a dream, because we are really accomplishing it.

Senator COCHRAN. Senator Andrews, do you have questions of the witnesses?

Senator ANDREWS. Yes, thank you, Mr. Chairman.

ELECTRIC PROGRAM NEEDS

The President's budget reduces the 1983 electric insured loan level just under $225 million. What do your surveys show, Mr. Administrator? Do they indicate these distribution co-ops will need considerably more than this to meet their requirements?

Mr. HUNTER. We have a considerable backlog of loan applications which we are making some gains on. But again, the survey of distribution co-ops that I referred to awhile ago shows a drastically reduced growth rate as compared to preceding years.

Senator ANDREWS. Well, if the demand is there, as I mentioned earlier when the Farmers Home people were here, we have quite a challenge to develop our own domestic energy resources, so we don't get involved in some tragedy trying to protect the lifeline of energy we don't own. Where are the co-ops going to borrow the money if REA doesn't have it?

Mr. HUNTER. As you know, Senator, the co-ops have used very effectively a creation of their own, the National Rural Utilities Cooperatives Finance Corp. (CFC), a financing bank which makes use of their own resources and capabilities. We sense this is a resource that can be used to a greater degree to accomplish the purpose of bringing in greater amounts of money for loans that will not require the REA revolving fund. We see the CFC as a major source, but there are other sources we can turn to, perhaps, with mortgage subordinations that will make it possible to finance parts of their systems through other sources.

DENSITY AS A CRITERION

Senator **ANDREWS**. But some can't use that type of funding source and have rates that aren't at all comparable with what their city cousins get. That is why Congress set up the definition of density in the distribution co-ops. It was my understanding after last year that the old 2-percent borrowers, because of the density burden, not to get into subsidy on electric cost but make electric rates comparable, was going to be held to a 100-percent loan at 5-percent interest. Now, I understand, they are going to be required at 10 percent of a loan, at today's interest rate about 14 percent. This will also be considerable. Is it fair to change the rules in the middle of the game after what you testified on last year?

Mr. **HUNTER**. Senator Andrews, if we had not taken some action, those borrowers who had been 2-percent borrowers would automatically have been faced with a 30-percent requirement, rather than 10 percent, for nonrevolving fund moneys. That is the reason we took the action, which incidentally is a transitionary provision.

Senator **ANDREWS**. Are you telling this committee that it didn't give you enough funding so you could supply these low-density distribution co-ops with adequate capital at 5 percent?

Mr. **HUNTER**. No, sir, I am saying the regulations we had in place at the time automatically put those borrowers into a 30-percent category. We are recommending only having a 10-percent involvement of other financing.

Senator **ANDREWS**. That is the regulation you folks talked with us about at the time. We were led to understand by everybody from the Secretary on down that borrowers were going to be transferred to 5 percent, and the others were going to be slipped up to other loans. I think the record is pretty clear in the hearings of this subcommittee and the hearings before the Agriculture Committee. Am I not correct?

Mr. **HUNTER**. I cannot relate back to those hearings. All I can relate to are the regulations that we had in place at the time that this change became effective. In consideration of what we felt would be an intolerable, or at least a difficult, burden upon those borrowers, we made the choice administratively to limit them to a 10-percent requirement rather than subjecting them to a 30-percent requirement for non-REA funds.

Senator **ANDREWS**. Could you provide for the record a little more detail where this 30 percent came from, because it looks like it is coming from nowhere.

Mr. **HUNTER**. I would be glad to.

[The information follows:]

SOURCE OF LOAN NEEDS

The August 13, 1981, amendment to the Rural Electrification Act dropped the provision for the special rate of 2 percent for those electric borrowers which had an average consumer density of 2 or fewer per mile of line or an average adjusted plant revenue ratio of over 9.0. Without this special provision the loan policy in effect for all borrowers, including those former 2 percent statutory systems which did not have an application on file with REA on July 24, 1981, is set forth in the current REA bulletin 20-14. This bulletin provides the policies concerning loans from sources other then REA and sets forth the conditions under which applicants for REA loans will be expected to obtain a portion of their long-term loan requirements from those other sources. Under the existing bulletin the proportions for requiring supplemental loans is based on the borrower's plant revenue ratio. Under this policy, most of the former 2 percent borrowers would be expected to obtain 30 percent of their loan needs from non-REA sources. Without a revision of the existing bulletin, this requirement would hold except when an administrative decision to do otherwise is made.

COMMITTEE DIRECTIVE

Senator **Andrews**. This subcommittee report for the current fiscal year, the one that came out last year, states the following, and I quote: "The committee also commends REA"—see, we are giving you a pat on the back—"for maintaining stable ratios of construction loans and supplemental loans at the current levels and will expect the agency to continue the ratios now in effect." Does REA intend to honor this directive?

Mr. **Hunter**. We have continued to maintain the same ratios that have been in effect in the past. We have, however, provided through the rulemaking process a notice of intent to at least review those criteria.

Senator **Andrews**. You put a notice in the Federal Register on January 22 that you are indicating you are considering revised criteria for determining these REA supplemental loans. Why are you considering criteria to replace the old ratios, which have adequately served as the REA basis for supplemental loans since its inception over 10 years ago, when the committee specifically told you we expect you to continue the ratios now in effect? You said you have been, up to this date. But then you said, you have also put a notice in the Federal Register you are going to change all that. You are going along with that old girl friend for the last 10 years, and all of a sudden you see a new one come along. That isn't exactly what the Congress told you to do. That is why I am wondering where this new romance comes in.

REA REVOLVING FUND

Mr. **Hunter**. Senator, we are very interested in continuing that old romance. The revolving fund is extremely important to our borrowers, and we want to make sure that the revolving fund doesn't reach a time where it is subject to some hazard. With the agreement of the interests that are involved, we must protect it from the hazards we feel are in the future. The revolving fund found it necessary to borrow some $683 million from the U.S. Treasury in order to obtain the cash that was needed to cover its obligations for the programs we had in 1981. As we project this into the future, we find it could reach the point where it would be necessary to ask Congress for an appropriation to cover interest subsidies and losses. If all of Congress is as friendly as I think this committee is, that might not be that great a hazard. But when we find ourselves in the situation we know we are in, it might be difficult to get that appropriation passed. The revolving fund could be in very serious trouble.

CONSIDERATION OF NEW RATIOS

Senator **ANDREWS**. But looking for new ratios after the committee told you directly that we expect you to continue the ratios now in effect; can you provide for the record what criteria you are considering and how they would be applied?

Mr. **HUNTER**. We will be glad to do that.

[The information follows:]

CRITERIA UNDER EXAMINATION

Some of the criteria we are specifically examining right now, and which were included in the January 22, 1982, Federal Register, include density, the ultimate cost to the consumer, the megawatt hour sales per mile of line, financing priorities, revenue ratios, other financial and operating ratios, or other criteria that could be used for equitably distributing insured loans.

The revised criteria, if approved, will be included in a revised REA Bulletin 20-14, Supplemental Financing for Loans Considered Under Section 4 of the Rural Electrification Act, and would apply to those applications received after the issuance of the revised Bulletin.

A copy of the notice included in the Federal Register follows:

ACTION: Advance Notice of Review of REA Bulletin 20-14, Supplemental Financing for Loans Considered Under Section 4 of the Rural Electrification Act.

SUMMARY: REA is reviewing Bulletin 20-14, Supplemental Financing for Loans Considered Under Section 4 of the Rural Electrification Act, to consider revised criteria for distributing REA insured loans. If revised, the criteria would be consistent with the Administration's objectives and REA's long-standing policy of reducing direct assistance as borrowers develop adequate internal and financial strength. Any change will allow REA to establish criteria and priorities which better respond to the need for insured loans.

DATE: Public comments must be received by REA no later than (30 days from the date of publication of this notice in the Federal Register).

ADDRESS: Submit written comments to Charles R. Weaver, Director, Electric Loans and Management Division, Rural Electrification Administration, Room 3342, South Building, U. S. Department of Agriculture, Washington, D. C. 20250.

FOR FURTHER INFORMATION CONTACT: Milton E. Wright, Chief, Borrowers Management Branch - Electric Loans and Management Division, Room 3338, South Building, U.S. Department of Agriculture, Washington, D. C. 20250, Telephone (202) 382-1936.

SUPPLEMENTARY INFORMATION:
History: In 1971, REA began requiring its borrowers to obtain a portion of their long-term financing needs from supplemental (non-REA) sources. This action was necessitated because the demand for REA loans was increasing faster than REA's available loan resources. The maximum proportion of supplemental financing that any borrower is presently required to obtain is 30 percent.

In May of 1973, the RE Act was amended. REA was required by statute to provide 100 percent of the financing needs at a special (2 percent) interest rate for borrowers in either of the following categories: a density of two or fewer per mile of line; or an average revenue per mile of line more than $450 below the national average. In October 1976, an amendment to the RE Act replaced the revenue per mile category with an average adjusted plant revenue ratio (APRR), which relates plant investment to revenue, of over 9.0. On August 13, 1981, the RE Act was amended so that all insured loans are at a 5 percent interest rate, unless in the sole judgment of the Administrator special circumstances warrant an interest rate of between 5 percent and 2 percent.

It should be noted that a proposed rule is being published in connection with those borrowers that prior to the August 13, 1981, amendment qualified for loans at the special statutory 2 percent interest rate. It is planned that this proposed rule will be reconsidered in the review of Bulletin 20-14.

Scope: REA is requesting public comment on the following: cost to the consumer, consumers per mile of line, MWh sales per mile of line, financing priorities, revenue ratios, other financial and operating ratios, or other criteria that could be used for distributing insured loans. The desired result is to distribute the insured loans to borrowers most in need.

This program is listed in the Catalog of Federal Domestic Assistance as 10.850 Rural Electrification Loans and Loan Guarantees. All written submissions made pursuant to this action will be made available for public inspection at the above address.

Signed: Harold V. Hunter January 18, 1982

Senator **Andrews**. Will you provide as definitive materials as you can? Also, Mr. Administrator, due to our interest in this matter, do you plan to keep the committee informed prior to any change in the present criteria?

Mr. **Hunter**. Yes, we definitely would.

Senator **Andrews**. Prior to any change?

Mr. **Hunter**. Prior to when any change is made.

WEST PLAINS ELECTRIC COOPERATIVE

Senator **Andrews**. Finally, I bring up the West Plains Electric Co-op, and I am bringing it up because I understand it shows again that you somewhat arbitrarily imposed a new policy that denies these co-ops to traditional loan funds. This application is for bulk transmission as opposed to subtransmission. West Plains seems to be one of those caught up in this new policy. I may not have any problem with your decision to stretch out your direct loans, but I have a serious problem making this policy apply retroactively to these applications. The West Plains loan application has been in the mill, so to speak, for 2 years. They worked with the REA field man in developing the application. The application was submitted to REA well ahead of the cutoff date. In your proposal to change the interest rate on these loans, how do you justify changing the rules in the middle of the ball game for co-ops who have invested months, even years, in the preparation of their application based on the interest rate at that time and for the past 40 years?

Mr. **Hunter**. Senator, several things entered into this. First, we are reflecting on our concern about the continued viability of the revolving fund. Then, we felt it was necessary to look very carefully at the priorities for the usage of the authorized funds.

Senator **Andrews**. The thing I am getting at is they came in good faith with their application ahead of the cutoff date, and then you applied a whole new deal after the cutoff date came in, in effect. You and I both know the managers of these distribution co-ops are pretty competent people, or the board of directors wouldn't put them there. We both know this borrower, had he been able to predict your policy change in regard to transmission facilities, would have engineered his project a little differently which I understand could be done at slight cost differential in order to qualify for the loan. But he came in in good faith, got ahead of the power curve, so to speak, and then you changed the criteria making him, in effect, ineligible. It would seem to me if you are going to follow up this good-faith concept, you ought to say we changed the criteria, but we are not going to negate your whole loan. But you haven't made that offer. Why not?

Mr. **Hunter**. Senator, we have made that offer, I believe, in the question of cutoffs.

Senator **Andrews**. In other words, if he comes back and revamps his loan application slightly on transmission facilities, he can then qualify for the 2-percent loan?

Mr. **Hunter**. The cutoff date that you speak of refers to eligibility for 2-percent interest.

Senator **Andrews**. You have already accepted his 2-percent loan application.

Mr. HUNTER. We understand that completely.

Senator ANDREWS. Couldn't you revise one based on your new criteria, which he wasn't aware of, so he could still get the benefit of the time deadline he did, in fact, meet even though you changed the rules 2 or 3 months down the pike?

Mr. HUNTER. He did meet the deadline which makes him eligible for the 2-percent interest rate.

Senator ANDREWS. Except he becomes ineligible because of the criteria change you had after.

Mr. HUNTER. Any borrower eligible for either a 2-percent or 5-percent loan would become ineligible for the inclusion of certain low priority purposes loan.

Senator ANDREWS. But you are going to give them the opportunity to go back and revamp their application and get in under the time deadline.

Mr. HUNTER. We have assured him that if he would like to move ahead with this loan, we could consider the transmission aspects later.

Senator ANDREWS. His would be a 2-percent loan?

Mr. HUNTER. That is correct, and that is a common treatment we are giving to all borrowers in that category.

Senator ANDREWS. Let me assure you, Mr. Administrator, the question is asked based on this example that is specific to my State, but, as I understand, it involves some seven or eight other cooperatives in other States. What I am trying to do is establish a pattern. You have kindly told us what your pattern was. Their date of application will be protected if they can somehow or another, ex post facto, come up with criteria change.

Mr. HUNTER. For instance, if during the rule-making process we end up with a strong aversion to what we are suggesting and we find the proposal we have made, the deletion of bulk transmission per se, should not become final, then his date of application will be protected.

Senator ANDREWS. We figured a deal is a deal, and we made the deal prior to that time. These low-density distribution co-ops at the present time will be covered by the 2-percent criteria.

Mr. HUNTER. He has been treated the same as any other 2-percent borrower except for the decision on transmission which applies to all borrowers.

Senator ANDREWS. I will look forward to seeing the answers you have on your criteria change. That is specifically at odds with what this subcommittee and very learned Chairman directed you to do. So if you can let us know on that and also assure us you are going to let us know before you put into place these new criteria, that would help a great deal.

I have some questions for the record, Mr. Chairman, but I have taken more than my time. I appreciate your indulgence.

Senator COCHRAN. Thank you, Senator.

Mr. Hunter, we appreciate your being here and the presentation you have made to the subcommittee.

OFFICE OF RURAL DEVELOPMENT POLICY

Mr. Phillips, you are in charge of a new office, and we have your statement concerning the activities and budget request of the Office of Rural Development Policy. Please feel free to proceed with any summary statement or highlights of your prepared statement that you would care to make to the subcommittee.

Mr. PHILLIPS. Thank you, Mr. Chairman. Because the hour of the morning is late, I will be brief.

MISSION OF ORDP

Secretary Block and Under Secretary Naylor felt that the best way to respond to the Rural Development Policy Act passed by Congress in 1980 was to establish our office as a new unit, separating the rural development policy function from Farmers Home Administration. They felt this step was vital, because the Congress wanted them to undertake rural development leadership not only in the Department but throughout the Government. Therefore, they elevated the policy function and established the new office as a very clear operating arm of the new Under Secretary, a position which was created as a result of the Policy Act of 1980 as well.

Our office's principal mission, of course, is to prepare the national rural development strategy called for in the Rural Development Policy Act of 1980. Another function we have a responsibility for, Mr. Chairman, is that of coordination of efforts related to rural development throughout the Federal Government. In that regard we are also making an effort to identify rural-urban inequities in Federal program benefits and will surface these to appropriate officials.

We also will look at Federal program regulations to identify urban-based requirements that hinder development initiatives in rural communities. Furthermore, we are looking for an opportunity to find alternative ways for rural areas to facilitate investments by the private sector to pick up the slack where Government funds might not be available.

Finally, it would be well for me to mention that we have an important function that no other Federal agency has—that is, we have a responsibility and mandate to be the Federal advocate for rural America and rural people.

I will be glad to answer any questions.

RURAL STRATEGY

Senator COCHRAN. Thank you very much, Mr. Phillips.

I know that one of your duties or responsibilities is to develop and implement policy and strategy for rural America. What is your current strategy?

Mr. PHILLIPS. We are currently designing a strategy that will outline the Federal Government's response to rural issues in the changing rural development climate of the 1980s. Our focus is on getting the private sector involved in rural development at all levels and in helping State and local governments take on their appropriate role in rural development.

BUDGET REQUEST

Senator **Cochran**. The money that you are requesting is utilized mainly to pay people who work in your office; is that correct?

Mr. **Phillips**. All of our funds are for salaries and expenses. There are no program funds in our budget request.

Senator **Cochran**. I notice that last year you were actually a part of the Farmers Home Administration and were allocated $1,875,000. This year you have requested $2.5 million and that represents an increase of $626,000. Is that consistent with your figures on the budget request that you are making?

Mr. **Phillips**. That is correct, sir.

Senator **Cochran**. Are you adding a lot of new people to the function?

Mr. **Phillips**. No, sir. Although we have several unfilled positions, we have less people than when the rural policy function was previously established in USDA as the Rural Development Service.

Senator **Cochran**. I don't understand why you need $626,000 more than last year.

Mr. **Phillips**. $116,000 of that would be to absorb increased pay costs from fiscal year 1982 and the other is for increased operating costs. The balance of the increase is needed for new strategy development, implementation, and updating activities plus other strategy related tasks. In addition, we would be using some of that money to establish a small clearinghouse-type operation where we could help rural areas exchange ideas of successful ventures that have occurred in one place that might help in others.

RURAL ADVOCATE

Senator **Cochran**. Do you feel after your short tenure as head of this Office that the functions of your office are going to be very helpful to people who live in rural America, or is this something that keeps people busy who might otherwise be unemployed if you weren't in business?

Mr. **Phillips**. I do feel it is going to be helpful. I have only been there a short time, only about a month as Acting Director. But I know the staff's work has contributed to the Under Secretary's and Secretary's advocacy efforts during budget negotiations that resulted in more funds for rural America. I think our office establishes a very conscious presence and awareness throughout the Government that there is somebody looking out for the people of rural America. Based on my own background, I personally feel strongly that there needs to be someone in the Federal Government that is truly out there to see that the interests of rural people are served, and I think we play a vital role in that regard.

Mr. **Naylor**. Mr. Chairman, if I may.

Senator **Cochran**. Mr. Secretary.

Mr. **Naylor**. As you know, the Secretary is Chairman of the Food and Agriculture Cabinet Council within the Cabinet of the United States formed by the President. A major concern of the Council is rural development, which the Secretary is directly charged with. As you know, there are a number of Federal departments that have potential resources which might go to rural America, but they frequently need to be reminded to do the additional work needed to bring those resources to bear on rural conditions. As we look toward new Federalism and plan for that, it is important that a sound and responsible voice be heard to represent rural development needs and to see that activities which must be continued in rural America are spoken for by an effective rural advocate. As you may recall, Senator, this office did exist independently when the Rural Development Act was first passed, and I was in the Department at that time. At the beginning of the last Administration, that separate office was folded into the Farmers Home Administration and sort of disappeared below the surface within that agency. With the Department of Agriculture being the chief advocate, in this Government for agriculture and, certainly for rural America, it did not seem to me that that depth and burial should continue. I felt that we needed an active and aggressive staff who would focus specifically on rural development coordination not only among agencies within the Department of Agriculture, but also more importantly among departments within the Cabinet Council. Such a staff is needed to supply the necessary research, information, and policy guidance that Secretary Block needs to be an advocate for rural development throughout the Government and throughout the development of the new Federalism process. So for this reason, we created this Office. We don't expect it to become a large office. We don't expect it to change in character. We expect and plan for it to serve that fundamental purpose of giving us the resources we need to see, as the Rural Development Policy Act charges, that the rural sector gets its fair share of Federal programs, and that development in rural areas is advanced across the board.

RURAL DEVELOPMENT ACT

Senator COCHRAN. Thank you, Mr. Secretary. I remember when I was a candidate for Congress in 1972, one of the things I said in my campaign was that in view of the passage of the Rural Development Act—which had just occurred—that we needed Members of Congress who would work hard for full funding of that act. Has the Rural Development Act ever been fully funded?

Mr. NAYLOR. I am not sure if we would ever fully respond to all the wants and desires that anybody might have any more than any other sector of the Federal Government has done so. I think we have seen gradual and sometimes dramatic expansion of rural activity. Now as we look at many of the problems that we are faced with within the economic recovery program, we are going to have to look for some new partnership at the private sector level and at the State and local government level, so we can bring a little better balance back in. Also in some instances, we have lost the rural character intended for some rural programs. I was appalled as I reviewed the investigative work of our Inspector General and saw how urbanized we had become in some of our activities. We were doing a lot of projects in areas that are almost major metropolitan areas and had in recent years slipped away from our original purpose. I think we are now moving properly back in the right direction and putting our efforts where they are needed. I mean in the small rural communities where you have volunteers in local government, where you don't have ombudsmen being paid to run around and procure grants for their communities. We have a network and potential within the Department to reach out to those communities, to represent their needs at the Federal level, and to foster greater attention to their needs at the State level.

BUDGET REQUEST

Senator COCHRAN. Mr. Phillips, one of the concerns I have with the budget request that we have looked at this morning, as you may have heard expressed earlier, is with the funding level of the low-income rural housing program. What, if anything, is your office doing to help assure that the needs of low-income rural Americans are being recognized by the Department of Agriculture and taken into account in connection with the budget request for rural housing?

Mr. PHILLIPS. Mr. Chairman, as a member of the Under Secretary's staff, I have the opportunity to sit in his senior staff meetings with Farmers Home. In this and other ways, our office is given an opportunity to work with Mr. Shuman and his staff as they develop their policy decisions and budget requests. As an advocate for rural America and with knowledge of the housing needs of rural people, we will do all we can to see that the need that Farmers Home can appropriately fulfill is indeed fulfilled by that group.

RURAL HOUSING

Senator COCHRAN. Are there any workable, effective programs that assist in the upgrading of rural housing other than those of the Farmers Home Administration?

Mr. PHILLIPS. Not to my personal knowledge.

Senator COCHRAN. I know we have weatherization assistance that is available. I suppose that comes under the Department of Energy or maybe Housing and Urban Development.

Mr. NAYLOR. Some of those are ours, Mr. Chairman, and some are HUD programs. But because of the limitations of HUD's delivery system they are not available in all of the rural sector. I think, as you know very well, the major advantage and major asset that perhaps the Department of Agriculture has in serving rural America is our office network around the country, both in Farmers Home and in other agencies in the Department which work so closely with local communities even in remote areas. With some 2,000 offices, we reach into many small communities where there are no thrift institutions or mortgage bankers available, where there are no other information resources needed for development readily available. I think we serve a very valuable purpose in that respect in Farmers Home and also through the Extension Service, and Mr. Phillips and his staff will help us coordinate all of that activity.

In addition, President Reagan has asked Secretary Pierce to develop additional recommendations dealing with the housing industry. His group is working through the end of March. Secretary Block is a full member of that group. We are meeting regularly. I have been involved in meetings this week and will be going to a

Cabinet-level meeting shortly after we leave here today with regard to this effort. I think the availability of resources like Mr. Phillips' office have put us in a very good position, a better position, to represent the cause and interest of rural America.

Senator COCHRAN. Well, that is encouraging to hear, because I know just from personal observation that there are tremendous needs in the rural countryside for some kind of housing assistance programs. Since I know of no other program except this low-income section 502 housing program that is administered by Farmers Home Administration that has really been effective in helping upgrade housing in rural America, it worries me we are seeing such a tremendous reduction requested in this budget for financing and making available new and improved housing to low-income rural Americans. I hope and realize from your assurance and from Mr. Phillips 'statements that you will be an advocate in these deliberations, and I hope we can look forward to seeing a program developed or modification of an existing program that would really help meet the critical need. With interest rates as high as they are and with unemployment where it is, I am convinced that there is a place in the Federal assistance program for an emphasis in that housing area.

We support also, I want to reiterate, the efforts to bring these interest rates down by implementing that economic recovery program. That legislation has been approved, with my support, in the Congress. We continue to look for ways to make sure we don't undo, but strengthen, the commitment to economic recovery which will lead to lower interest rates and a better economic climate which will permit people to do more for themselves. I fully support that approach. I do feel, however, that at this time there may be some people who are falling through the cracks and who may not be able to have adequate housing because of these substantial cutbacks in this particular program.

CLOSING REMARKS

We appreciate hearing from you, Mr. Phillips, and learning more about the activities of your office. We hope you have great success in your advocacy efforts for rural Americans.

Mr. Secretary, thank you for being with us this morning. You have been a great help to the subcommittee, and we appreciate the leadership you are providing in the areas under your jurisdiction. We think you are doing an exceptionally fine job, and we thank you.

Mr. NAYLOR. Mr. Chairman, thank you. As always, it is a pleasure to work with you and your committee. We are very grateful for the opportunity to express our observations and concerns with you today, and we look forward to continuing to work with you very closely in the future and to see the fine job you are doing.

Senator COCHRAN. Thank you.

SUBMITTED QUESTIONS

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

RURAL ELECTRIFICATION ADMINISTRATION

QUESTIONS SUBMITTED BY SENATOR COCHRAN

REA BUDGET REDUCTIONS

In your budget request, you are asking for reductions in lending programs totalling $885 million in fiscal year 1983, in addition to a $1 billion cut to go into effect in fiscal year 1982. Of the $885 million, $710 million is the proposed reduction for the Rural Electrification Program, and $175.4 million for the Rural Telephone program.

Question: What is the rationale for these large reductions?

Answer: The rationale is that non-Federal financing sources are available to rural electric and telephone borrowers in sufficient amounts to more than off-set the reductions. Greater reliance on private credit will reduce federal intrusion into the capital markets and assist in easing the upward pressure on interest rates.

Question: What is your assessment of the impact these reductions will have on electric and telephone service in rural communities?

Answer: We do not anticipate any adverse impact on electric and telephone service in rural areas as a result of the President's budget proposals. Although borrowers will be required to seek some non-Federal financing, necessary plant improvements and expansion will still be made to provide adequate, and, where necessary, improved service to rural areas.

ALTERNATIVE LENDING SOURCES

Question: What, if any, alternative lending sources exist to provide additional and improved electric and telephone service in our rural areas?

Answer: We anticipate that a significant amount of capital will be made available through the issuance of tax-exempt municipal bonds, particularly for pollution control facilities of generating plants. In addition, we expect that the Banks for Cooperatives, the National Rural Utilities Cooperative Finance Corporation, and other private financing institutions will provide a greater amount of the borrowers' capital needs than they have in the past.

TELEPHONE SERVICE IN RURAL AREAS

Question: Approximately 20 percent of Americans in rural areas have multi-party telephone service. Millions have no service at all. How can you justify these cutbacks in the Rural Electrification Administration program at a time when service to Americans is so inadequate?

Answer: We feel that the borrowers, by setting priorities for their capital needs and by making a thorough examination of the availability of alternative financing sources, can make more efficient use of the reduced levels of funding proposed for the REA programs. We have full confidence that needed service maintenance and improvements will continue to be made by REA borrowers in their plant facilities and that service provided in rural areas will continue to be comparable in quality to that provided in urban areas.

LOAN LEVEL LIMITATIONS

Question: The Rural Electrification Administration's budget justifications propose to eliminate the floor on spending in REA's telephone program and in the Rural Telephone Bank. This would leave the amount of loans to be made (within the limits proposed by the Administration) entirely at the discretion of the Administrator-- is that correct? If you decided to make no loans at all, would you be required to notify the Congress that you were not going to make any?

Answer: The Rural Electrification Act of 1936, as amended, directs the Administrator to make REA insured loans, Rural Telephone Bank loans, or loan guarantee commitments to borrowers that qualify under certain approved criteria, within funding limitations approved by the Congress and the President. Congress would be informed of any plan to reduce any loan program level.

JUSTIFICATION OF LOAN LEVEL REDUCTIONS

Question: Since the Rural Electrification Administration estimates a backlog in loan applications of about $1.5 billion right now, why are you cutting back this program?

Answer: The goal of the Administration's proposed decrease in the REA loan and loan guarantee programs is to reduce the Government's intrusion into the financial market. Although the amount of government funding to REA borrowers will be reduced, sufficient alternative financing, as already mentioned, should be available.

RURAL TELEPHONE BANK RECAPITALIZATION

Question: If the Rural Telephone Bank were not recapitalized, at current Treasury borrowing rates, what would the interest rate be on a Rural Telephone Bank loan?

Answer: Without additional government capitalization, we would expect the interest rate charged to Bank borrowers to increase initially about 1.0-to-1.5 percentage points, depending on the size of the program and other factors.

Question: Without recapitalization of the Rural Telephone Bank this year, will not more potential borrowers be forced into the insured program?

Answer: It is possible that an increase in the Bank's interest rates could result in some borrowers becoming ineligible for the Bank loans, permitting them to seek insured loans for some or all of their needs. However, since we do not expect the interest rate charged by the bank to increase significantly, the number of borrowers affected should be minimal.

Question: What will be the impact on local rates in areas served by Rural Electrification Administration borrowers if you eliminate the Rural Telephone Bank recapitalization and the Rural Electrification Administration loan program and these borrowers have to go to the commerical market to finance their projects?

Answer: Since interest expense makes up only a small portion of the total cost for providing electric and telephone service the impact on rates in rural areas is expected to be minimal.

QUESTION SUBMITTED BY SENATOR ANDREWS

IMPACT OF BUDGET PROPOSALS ON THE ECONOMY

Question: I agree that everyone must contribute to balancing the budget, but it seems our rural areas are bearing too much of the burden. The Rural Electric Program, if not curtailed, could help, it seems to me, in reinvestment and productivity. Why reduce the program level of a loan program that returns every dollar to the Treasury plus interest?

Answer: The goal of the Administration's proposals in reducing loan levels is to lessen the government's role in the financial arena. I should add that even though REA loans are repaid in full and the borrowers do pay interest on their debt, the interest paid by the borrowers is only 5 percent on new REA loans, and ranges between 2 percent and 5 percent on old REA loans. The interest and principal receipts are insufficient to cover all of the demands on the Rural Electrification and Telephone Revolving Fund from which advances are made. Any shortfall experienced by this revolving fund must be covered by interim borrowings from the Treasury. Twice a year the interim amounts borrowed must be repaid through sale of a Certificate of Beneficial Ownership to the Federal Financing Bank. These certificates also bear interest which must be paid by the revolving fund. Therefore, even though the debt incurred by the borrowers is repaid in full, the program is not cost-free to the government. The method by which the revolving fund gets about one-half of the money needed each year to carry out the insured loan programs requires borrowing by the Federal government which in turn disrupts the normal channels of the financial market.

QUESTION SUBMITTED BY SENATOR ABDNOR

ELECTRIC SERVICE RATES

Question: What alternative sources of funding are there for the insured REA borrowers? Are there not many loan applications backlogged at REA?

Answer: Borrowers of REA insured loans will most likely seek the majority of their non-REA funding from the National Rural Utilities Cooperative Finance Corporation, the Banks for Cooperatives, and other financing institutions. We expect that these sources, combined with REA insured loans, guarantees of loans and Rural Telephone Bank loans, should be more than adequate to maintain the backlog of applications on hand at a reasonable, manageable level.

QUESTIONS SUBMITTED BY SENATOR MATTINGLY

ELECTRIC SERVICE RATES

Question: How do today's average retail electric rates for co-op customers compare with those in the past?

Answer: Retail electric rates began increasing in the early 1970's and since 1973 the average retail price per kilowatthour (kwh) charged by rural electrics has increased at an annual rate of about 12.4 percent. The principal causes of these rate increases have been rapid fuel increases and expensive generating units coming on-line. Investor-owned and other electric utilities have experienced similar cost and rate increases. However, when compared with other forms of energy, for example, oil and natural gas, retail rates for electricity have increased less rapidly.

It is interesting to note that in real dollars, that is, dollars adjusted for inflation, electricity remains a very good buy. Rural electric consumers are paying far less for electricity today in real dollars than they did in the early years of the rural electric program. For example, in 1945, the average price per kWh was 4.14 cents. In 1981, it was 5.20 cents, an increase of only 25 percent in 36 years. In 1945 dollars, this 5.20 cents translates into 1.03 cents per kWh.

Question: What would be the impact on the rural electric co-op consumer if in the worst case all new loans were made at 14 percent?

Answer: An increase in interest rates on loans to rural electric distribution systems would not have a great impact on the electric bills of rural consumers. Interest paid by rural electric distribution borrowers accounts for only four-to-five percent of their total revenue. Interest paid by REA power supply borrowers, which accounts for about 20.6 percent of their revenue less cost of purchased power, is passed through to distribution borrowers in their wholesale power bills. However, that interest expense component would not increase as a result of REA's budget proposals. But, it will decrease if the economic program of the President is successful and that decrease will more than offset any increase in the interest paid by distribution systems.

An increase in interest expense to 14 percent on all new loans to distribution borrowers would result in the average residential customer paying less than two cents per day more for electricity in the initial year.

Question: How do the rates for electric service of cooperatives compare with rates paid by customers of investor-owned utilities?

Answer: Comparisons of the cost of electric service between cooperatives and investor-owned utilities are difficult to make. For calendar year 1980, the average residential price per kWh for REA distribution borrowers was 4.7 cents. The comparable figure for investor-owned utilities reporting to the Edison Electric Institute was 5.4 cents. A comparison between the cost of electricity to residential consumers served by cooperative systems and adjacent investor-owned systems at an average of 1,000 kWh/month showed that cooperatives' consumers paid more in 461 cases and less in 420 cases.

PROGRAM SUBSIDIES

Question: Have subsidized loans always been a part of the REA program?

Answer: No, they have not. When REA was established in 1935, nine out of ten rural Americans were without central station electric service. It was not considered profitable by the established investor-owned utilities to run the lines into low density rural areas. Without equity or security, new organizations had no place to borrow the necessary funds for such an undertaking. The establishment of REA, however, provided a source of funds and the rural cooperatives began the tremendous job of building lines and buying electricity to deliver the convenience of central station service to the countryside.

REA made loans to these newly formed cooperatives from 1936 through 1944 at interest rates ranging from 2.46 to 3.00 percent. In each of these years, the rate was more than the computed interest rate on marketable Treasury issues at the end of the year.

The September 21, 1944, law stabilized the interest rate at two percent and that rate continued to exceed the Government's cost-of-money through 1948. As the cost-of-money to the Government continued to increase, an unintended subsidy resulted. This subsidy increased slowly and steadily as the rate to the borrower remained at two percent while the cost-of-money to the Government reached 3.45 percent in 1960, 5.99 percent in 1970 and 9.61 percent in 1980. This past year, it was 12.44 percent.

It is this Administration's conviction that the rural electrification program has done, and will continue to do, a tremendous job in rural America. The Reagan Administration does, however, believe that there is little justification for taxpayers to continue subsidies at the present level by allowing the Revolving Fund to be depleted or by requesting a direct appropriation to offset the interest subsidies on loans to these established borrowers.

SOURCE OF LOAN DOLLARS

Question: Is it true that no tax dollars are used to finance REA loans to electric cooperatives? I am particularly interested in the five percent loans from the Revolving Fund.

Answer: During fiscal year 1981, the REA revolving fund sold $683 million of Certificates of Beneficial Ownership to the Federal Financing Bank to finance about 50 percent of its cash needs because debt collections were not sufficient to fund advances. The FFB gets its money from the Treasury which, in turn, gets its funds from public borrowings and from tax collections. It should also be noted that when the revolving fund was established in 1973, REA's outstanding notes payable to the Treasury were made non-interest bearing. Without these interest receipts, the Treasury had to increase its borrowings or use tax dollars to continue paying interest of about $300,000,000 annually on funds it borrowed to enable REA to make advances on two percent loans.

OFFICE OF RURAL DEVELOPMENT POLICY

QUESTIONS SUBMITTED BY SENATOR COCHRAN

STRATEGY

Question: Would you explain what the current strategy is?

Answer: The strategy is now in the design phase, as was described in the report called "Working Toward A National Rural Development Strategy: A Progress Report" that Secretary Block transmitted to the House and Senate Agriculture Committees at the end of January. As the Secretary says in that report, we want to formulate a national rural development strategy that is practical, affordable, and responsive to the diverse problems and opportunities in rural America. I will see that you get a copy of that report. We intend that the strategy will be built from the ground up on local and State recommendations and on our review of Federal programs to identify problems of urban-rural inequity.

Question: What does your office do to develop and implement policy and strategy?

Answer: The Rural Development Policy Act of 1980 is specific in terms of what must be done in preparing the rural development strategy. The act calls for the consideration of State and local public and private problem statements and recommendations on a variety of subjects such as health, job creation, transportation, and so forth obtained through public hearings, local meetings, and other means. It also calls for the identification and reduction of Federal regulatory and legislative impediments to effective program delivery in rural areas. In addition, we are to identify and address rural-urban program funding inequities.

Strategy implementation will require several types of activities. The first will involve actively advocating needed program changes with other Federal departments and agencies through the President's Cabinet Council system. Second, we will develop ways to help States and localities take on more responsibility for rural development, by working with them directly and through their interest groups. Third, we will work to foster greatly increased private sector initiatives in rural development.

RURAL ISSUES

Question: What are some emerging rural issues you have identified?

Answer: We have identified four primary concerns. First, while rural population and employment have become increasingly diverse, physical isolation and low population density in many rural counties still make it difficult for communities to meet local demands for public facilities and services. Second, above average rates of low incomes continue among a sizable number of geographically concentrated rural counties. Third, we are in a period when rural governments are having to anticipate and adapt to a variety of social, economic, and demographic changes to provide an increasingly diverse array of public services. And fourth, the relationships among natural resources, agriculture, and rural communities are significant and have a major influence on rural development.

These concerns are currently shaping national rural policy and are among those that will be addressed in the national rural development strategy. They are discussed in much more detail in the status report that I will give to you, as I mentioned earlier.

STATE AND LOCAL GOVERNMENT

Question: What success have you had in strengthening state and local government roles in rural development?

Answer: You will note that the Rural Development Strategy Progress Report lays much stress on strengthening the role of State and local government and the private sector in financing and managing rural development. To this end, we are working with both public and private interest groups--including those representing State and local public officials--to find ways for their membership to assume a larger role in the development process and to identify ways that we might assist them in this endeavor. This effort is ongoing and should lead to a number of practical helps, such as statewide networks for information exchange to give rural leaders more ready access to expertise needed for rural development initiatives.

PRIVATE SECTOR ROLE

2 Question: What role do you see the private sector playing?

Answer: In the United States the private sector has always had the largest and most efficient investment and management role in economic and community development. We see that role increasing significantly as the economy is revitalized and as private interests are encouraged through the Administration's focus on voluntarism, to take up their appropriate and equitable role in bettering community life in this country. We believe it is incumbent upon us to find ways to help the private sector take on this enlarged role in rural development. To this end, we are working with the Presidential Task Force on Private Sector Initiatives to make certain that rural interests are adequately represented. We plan to develop a small clearinghouse for dissemination of information about successful private sector and volunteer rural development initiatives. As another example, our plans for developing statewide expertise brokering systems include assisting private sector leaders as well as public officials with information they need in order to get more involved in rural development.

QUESTIONS SUBMITTED BY SENATOR ANDREWS

OFFICE OF RURAL DEVELOPMENT POLICY

As you know, I strongly supported setting up the Office of Rural Development as I felt there was a great need to coordinate the Federal programs with the State and local entities.

However, it does appear that the proposed budget for the Department of Agriculture will leave little for you to oversee. Almost all rural development programs have received drastic cuts.

ORDP ROLE

Question: Just what kind of a role will the office play, with fewer and fewer Federal programs aimed at rural development? (No funding for rural development grants, no funds for B&I, huge cuts in rural housing, cuts in water and waste disposal, etc.)

Answer: Federal programs represent only a small portion of the investments made in rural America each year by the private sector and by State and local governments. Nonetheless, the fiscal year 1983 budget contains some $17 billion in loans and grants to address rural development needs of a primarily physical, or bricks and mortar, nature. These programs range from housing and transportation to water and sewer and also include small business loans. In addition, there are very sizable funds for farming, health care, education, and other assistance important to rural people.

In this time of fiscal accountability, as the agencies administering these funds strive for greater fiscal efficiency, it is especially critical that we help coordinate such Federal efforts and apply careful analysis to help avoid duplication and lack of consistent responses to the Administration's goals. However, it is important to note that coordination in rural development means finding ways to help to make it possible for differing interests to work together for the common good.

The Office of Rural Development Policy also serves as an advocate or spokesperson for rural concerns in the executive branch, to ensure rural-urban equity in Federal funding and appropriate attention to rural areas in the design and management of Federal programs. We aim to provide a single, central focus for national rural policy that embraces the concerns of rural people and communities and that fosters much greater involvement by the private sector and by State and local government in rural development.

STATE AND LOCAL GOVERNMENTS

Question: As you return the "responsibilities and resources to the States," I seriously doubt they are going to be interested in your advice.

Answer: We have no intention of trying to advise State and local government officials. On the other hand, we do plan to assist them by our rural advocacy efforts within the executive branch and by helping them find alternate approaches to meet rural needs in this time of transition.

SUBCOMMITTEE RECESS

Senator **COCHRAN**. The subcommittee will stand in recess until 2 p.m. this afternoon. We will reconvene in room 1114 of this building to hear from Agriculture Secretary John Block on the general outlook for agriculture.

The subcommittee now stands in recess.

[Whereupon, at 12:30 p.m., Thursday, March 25, the subcommittee was recessed, to reconvene at the call of the Chair.)

AGRICULTURE, RURAL DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1983

THURSDAY, MARCH 25, 1982

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, D.C.

The subcommitte met at 2:10 p.m. in room 1114, Everett McKinley Dirksen Senate Office Building, Hon. Thad Cochran (chairman) presiding.

Present: Senators Cochran, Andrews, Kasten, Mattingly, Eagleton, Burdick, and Sasser.

DEPARTMENT OF AGRICULTURE

SECRETARY OF AGRICULTURE

STATEMENT OF HON. JOHN R. BLOCK, SECRETARY OF AGRICULTURE

ACCOMPANIED BY:
- RICHARD E. LYNG, DEPUTY SECRETARY OF AGRICULTURE
- WILLIAM G. LESHER, ASSISTANT SECRETARY FOR ECONOMICS
- J. DAWSON AHALT, DEPUTY ASSISTANT SECRETARY FOR ECONOMICS
- STEPHEN B. DEWHURST, BUDGET OFFICER, DEPARTMENT OF AGRICULTURE

INTRODUCTION OF WITNESSES

Senator COCHRAN. The subcommittee will come to order.

This afternoon we are very pleased to welcome the Secretary of Agriculture, John Block. We appreciate your being here to share with us your general outlook for agriculture and to give the committee an overview of the Department's budget request for fiscal year 1983.

The Secretary is accompanied by Dick Lyng, Deputy Secretary of Agriculture; William Lesher, Assistant Secretary for Economics; Dawson Ahalt, Deputy Assistant Secretary for Economics; and Steve Dewhurst, the Department's budget officer. We welcome each of you to the committee.

PREPARED STATEMENT

We have a copy of your prepared statement, Mr. Secretary, which we will make a part of the record at this point, along with the Department's statement of increases and decreases in budget authority.

[The statement follows:]

PREPARED STATEMENT OF JOHN R. BLOCK

SECRETARY OF AGRICULTURE

Mr. Chairman and members of the Committee, I appreciate the opportunity to appear before you to discuss the work of the Department of Agriculture and to present our fiscal year 1983 budget proposals.

When I appeared before this Committee one year ago, we discussed the terrible toll that inflation and high interest rates were exacting on American farmers. Since that time many significant changes have occurred. We have lifted the grain embargo. We have worked together, long and hard, to enact the reconciliation legislation, restrained appropriations bills and the tax reductions which lay the foundation for our economic recovery program.

Working together we have substantially reduced the rate of growth of Federal spending, reduced the tax burden on our citizens and reduced the level of Federal involvement in everyone's daily life. The recently passed farm legislation provides me with the tools to protect farmers against extremely low prices yet it moves us another step closer to a reduced Federal role in rural America and a free market environment for the farm sector.

These changes have played a substantial part in curbing the rate of inflation. They lay the foundation for our longer term economic recovery. But we cannot ease up. Interest rates and unemployment continue at levels that are far too high. We must extend our efforts to reduce inflation, bring down interest and unemployment rates and encourage private economic activity. The budget proposals I bring to you today are designed to continue this progress toward economic recovery which foreshadows a period of sustained economic prosperity for the nation.

Before discussing these proposals, I would like to briefly describe the current status of American agriculture.

Current Agricultural Situation

The domestic agricultural situation can best be characterized by large crop and livestock supplies and sluggish demand. Record acreage planted for 1981 crops, and excellent growing conditions, have resulted in crop production being up more than 15 percent above the 1980 levels, which were seriously affected last year by the drought damaged 1980 crop. The supplies of livestock products, including meat and dairy products, are also at record levels, but the growth has been less than in the crop sector.

Domestic demand for the abundant supplies of farm products has been sluggish because of slow growth in income, high unemployment and high interest rates. The President's economic program-is expected to bring about a change in this situation during the latter part of the year, but for the time being the bearish economic situation has been hitting the crop and livestock sectors hard and this translates into weak demand for our agricultural products.

High interest rates have also tended to weaken commodity demand and prices by increasing the cost of holding stocks for processors and other users and increasing farmers' cost of production. Farmers have been under increased pressure either to hold larger stocks, put their grain under loan with the Commodity Credit Corporation, or sell at current low prices.

Not only is domestic demand weak, but growth in foreign demand for our agricultural products will be smaller than in previous years as a result of poor economic performance in the rest of the world and the generally high level of agricultural production around the world.

There are several other important factors affecting our agricultural exports. The stronger dollar means that importing countries must pay about 30 percent more for U.S. agricultural products this year than was paid last year. The high cost of holding inventories and the political instability in Eastern Europe are also affecting export sales. The increased use of subsidies is giving some countries an unfair advantage in capturing new sales, and trade barriers make it exceedingly difficult to gain access to certain markets.

The combined effect of slow domestic and foreign demand in the face of record supplies is causing a build-up of stocks and lower prices and income for U.S. farmers. Even though stocks are large, they are not excessive in relation to worldwide consumption requirements. Nevertheless, the current bearish market psychology has unduly dampened prices.

Despite depressed prices, the cash income of farmers is likely to be a record $150 billion in 1982. However, production expenses have been rising faster than income, placing farmers in a cost-price squeeze.

It will take a period of time to work out from the current situation. On the demand side, general economic performance both here and abroad must improve.

On the supply side, we have tried to design a 1982 crop program that will lead to higher prices and incomes for farmers. The acreage reduction programs for wheat, feed grains, rice and cotton, together with the higher reserve loans offered under the farmer-owned reserve program, should help to improve the situation if farmers participate in the announced programs. I can assure you that farmers who don't participate will not be eligible for any 1982 crop program benefits.

I am optimistic that we can bring improvement to the agricultural economy. The new Agriculture and Food Act of 1981 provides the necessary authorities we need to move to a prosperous market-oriented agriculture. I am using these authorities to a great extent for the 1982 crop programs. In addition, as the President's economic program takes hold and stimulates economic growth, the demand for agricultural products will increase. The slowing of inflation will also reduce the increase in farm production expenses and lead to an improvement in farm financial conditions. The medium term outlook suggests strong recovery during the second half of 1982 and early 1983.

On the foreign trade side, we are working aggressively to stimulate the long term growth in exports and deal with the numerous trade problems we face. During my recent trips to China, East Asia, Africa and Mexico, the possibilities for expanded agricultural trade were explored. I am optimistic about the potential for increased agricultural export trade with these areas. In addition we are reviewing a number of options to encourage increased private sector initiatives in agricultural trade development.

Over the next couple of years, continued expansion of the crop insurance program will reduce the risks that farmers face as a result of natural disasters. We are also moving in our research programs to address the longer term problem of productivity growth and resource use so that U.S. agriculture continues as a reliable long term supplier of agricultural products throughout our nation and to all the world.

Farm Credit Situation

Another vitally important factor in assessing the status of the farm sector is the credit situation. Despite depressed farm income, the financial position of the farm sector is basically sound. The debt-asset ratio for the farm sector as a whole is about 17 percent, which compares favorably to other sectors of the economy. Further, the long-range outlook for agriculture looks encouraging.

Increases in the value of farm assets should continue to exceed increases in farm debt, and farm income will improve.

Nonetheless, we cannot overlook the fact that many farmers are experiencing credit and cash flow problems. Farmers must be assured that adequate credit resources are available to them as they enter the spring planting season. First and foremost in meeting this challenge, we must not create panic among farmers and lenders by over exaggerating the near-term problems that do exist. Most lenders are finding ways to keep their existing borrowers in business another year. Some of the financing techniques that are being used include the rescheduling of debt payments, borrowing additional amounts on existing assets, and postponing large capital expenditures.

On January 21, 1982, I met with representatives of the Farm Credit System, the American Bankers Association and the Independent Bankers Association of America. We received their support in helping us to monitor the credit situation and to offer ways to improve commercial lenders' participation in financing Farmers Home Administration (FmHA) borrowers.

I also have established new guidelines to be used by FmHA field personnel in assessing loans currently held by FmHA.

We are keeping a close watch on the demand for farm loans as we approach the peak application period. The fiscal year 1982 budget provides almost $4 billion for farm loans. We plan to continue this level for the FmHA's portion of farm lending in fiscal year 1983 with increased emphasis on farm operating loans.

Fiscal Year 1983 Budget Proposals

Our budget proposal for fiscal year 1983, including the latest estimates for CCC programs, totals $28.4 billion in outlays. The total value of programs and services provided by the Department in fiscal year 1983 is estimated to be $52.2 billion. As you can see, the programs of the Department will continue to make a major contribution to the viability of the agriculture community and the well being of all Americans.

We must continue our joint efforts to reduce the growth of Federal spending. As such, program levels in almost every area of the Department are reduced from 1982 levels. However, in many cases, we can minimize the effects by better targeting and management of our program efforts. Even with these overall reductions we have provided for increases in a few high priority areas.

Research and Extension

We continue to regard agricultural research as a very high priority. Our nation's rate of growth in plant and animal productivity has leveled off in recent years. We must invest in fundamental research now in order to assure increased agricultural production in future years.

We are requesting an increase of $54 million for agricultural research in fiscal year 1983. This will allow us to either maintain or increase the major programs in the Agricultural Research Service (ARS) and the Cooperative State Research Service (CSRS). This provides a clear indication of the priority we place on agricultural research programs even in a very austere budget year. The ARS budget request will provide for 3 percent real growth since fiscal year 1981. ARS is in substantial need of strengthening after a long period of barely keeping even with inflation. We are also requesting an additional $3.6 million for the Hatch and 1890's research formulas in CSRS to help offset inflationary costs. A total of $22.9 million, an increase of $6.5 million, is requested for Competitive Research Grants to provide an adequate base of funding for this program. In the first four years of this program, we were able to fund less than half of the best rated research projects. Many opportunities to make major basic research breakthroughs are now being lost.

For the Extension Service, we have maintained the basic Smith-Lever formula program at the fiscal year 1982 level and are requesting an increase for the 1890's extension formula to meet the new statutory requirements of this program. A number of smaller earmarked programs are proposed for reduction or elimination. States will continue, of course, to have the option of using formula funds for these activities.

Agricultural Exports

We continue to place a very high priority on expanding our agricultural exports because of the substantial contribution exports make to the farm sector and the economy as a whole. Agricultural exports provide about one-fourth of U.S. farm income and every dollar earned from exporting is more than doubled in business activity in the general economy. Because of the vital role exports play, we are requesting an increase of $4 million, or 11 percent for the foreign market development program of the Foreign Agricultural Service. These funds will be used to provide for real growth in the foreign market development program. Funds are also requested to offset inflation in our other overseas activities. The emphasis of our foreign market development activities will be placed on country/commodity combinations that have a high market expansion potential and that will help reduce the burden on commodity price and income support programs. We are also proposing to continue the $2.5 billion export credit guarantee program and the P.L. 480 program will increase from $1.48 billion in fiscal year 1982 to $1.5 billion in fiscal year 1983.

Commodity Credit Corporation

Fiscal year 1983 outlays for the Commodity Credit Corporation will result primarily from 1982 crop programs, which will be the first carried out under the authorities of the Agriculture and Food Act of 1981. We feel that the new Act gives us the tools to move toward a more market-oriented farm economy. Using authorities of the new Act for the 1982 crops, we recently announced acreage reduction programs, raised regular and reserve loan rates and opened the farmer-owned reserve for immediate entry. We felt that, under the current conditions of a sluggish demand and large crop and livestock supplies, the farm sector needed help.

As you know, CCC outlay estimates continue to be very tentative, because the weather and economic situation both in the U.S. and abroad throughout the coming year can change the estimates quite radically.

I would like to take this opportunity to thank the Committee for its part in expeditiously restoring our line of credit by providing funds to restore prior year losses in the Commodity Credit Corporation. However, it is important to note that the longer term solution to this problem lies in a $5 billion increase in borrowing authority up to the authorized limit of $25 billion. Our request for this increased authority continues to be of the utmost importance.

Crop Insurance

We are moving aggressively to expand the all-risk crop insurance program. In crop year 1982, the program will be available to farmers in all 3,000 agricultural counties in 49 states and will insure 28 commodities. Insurance will be available to cover 100 percent of the acreage previously covered by disaster payments with the exception of only partial coverage for oats. The farmer participation rate is estimated at over 30 percent of insurable acreage. In crop year 1983, we anticipate that producer participation will expand to between 40 and 50 percent of insurable acreage.

Soil and Water Conservation

For soil and water conservation programs, we are proposing a substantial reordering of priorities and fundamental program changes. A recently completed study of the condition of the nation's soil, water, and other related resources assigns highest priority to those activities which will reduce soil erosion so as to maintain the long term productivity of agricultural lands.

To achieve these goals, conservation technical assistance and information gathering and analysis activities are slated for budget increases. Improved effectiveness is expected as a result of the increased use of "targeting" in which our soil and water conservation efforts are directed to areas with critical resource problems.

The budget includes a new $10 million program of matching soil and water conservation grants. Grant funds for technical assistance will be made available to local units of government through State soil conservation agencies. This program was authorized in the 1981 farm bill. It is a pilot program that has multiple objectives — concentrating Federal funds in those areas where problems are most critical and increasing the role and responsibility of state conservation agencies and local units of government in solving conservation problems.

Because of overall funding constraints, several programs are scheduled for cuts in spending. The fiscal year 1983 budget for watershed and flood prevention operations provides funding only for the most urgent public works construction projects. Accordingly, we do not anticipate any new construction starts. However, we do recognize that these activities constitute an important program delivery system, and it is therefore desirable to maintain a minimum capability so that construction activities can be resumed in the future without incurring the extra cost of building a new system. Further, the watershed planning staff is maintained at 1982 levels and there will be a limited number of new planning starts.

The Resource Conservation and Development Program is slated to be terminated by the end of fiscal year 1983. This action is based on reviews conducted in previous years, which failed to demonstrate that this program has made significant progress in achieving program goals.

Finally, there are also recommendations for reductions in the Department's conservation cost share assistance programs. A recent USDA study of the

Agricultural Conservation Program is the first attempt to quantify the output of conservation practices on a wide-scale basis. The study shows areas where cost-effectiveness can be improved. For instance, only about one-half of all practices were applied on land that was eroding excessively. The evaluation provides a basis for program managers to target assistance more precisely and finance some of the most important conservation work with a reduction in funding. Furthermore, the Administration would anticipate landowners and state and local governments to increase their funding for conservation practices as the seriousness of the problem is more completely understood and as farm income improves and Federal taxes are lowered.

Rural Credit

Reductions in the credit area are essential to the President's program for economic recovery. Unless we can reduce Federal spending and Treasury borrowing to support Federal credit activities, we have little hope for continued economic recovery, increased private investment and renewed productivity in the future.

While our credit programs in Farmers Home Administration and Rural Electrification Administration will be reduced by over $4 billion, the total of all of the Department's new lending activity will exceed $20 billion for fiscal year 1983. In addition, we will continue to service and, where necessary, reschedule repayments for over $112 billion of loans and loan guarantees we estimate will be outstanding at the beginning of fiscal year 1983. It is readily evident from these figures that the Department of Agriculture will continue as a significant supplier of credit in rural America.

Despite the sharp reductions in most federal credit programs, we are proposing that FmHA's farm operating program be increased by $135 million for fiscal year 1983. With this increase, the program will reach a level of $1.5 billion which is almost double the level achieved in fiscal year 1981. In total, FmHA's farm loan programs are budgeted at $3.9 billion in fiscal year 1983, which is essentially the same as fiscal year 1982.

As I noted earlier, we recognize that many FmHA and other farm borrowers are currently experiencing serious credit problems, largely related to the decline in net farm income. However, we feel that these problems are near term in nature and will be resolved as the economy recovers and prices strengthen.

Mr. Chairman, I can assure you that our first priority is to keep farmers in business and that our credit policies for fiscal years 1982 and 1983 will allow us to achieve that objective.

We are proposing that FmHA's rural housing programs be reduced from $4.2 billion in fiscal year 1982 to approximately $1.4 billion in fiscal year 1983. The reduction is significant. But FmHA will minimize the impact by ensuring that most needy households are the primary beneficiaries of the programs. This reduction is part of the Administration's overall effort to curb federal intrusion into the credit markets, and help relieve the pressure on interest rates, which has effectively closed the housing markets to an unacceptably high portion of rural as well as urban residents.

A modest reduction is being proposed in the water and waste disposal loan program, from $375 million in fiscal year 1982 to $300 million in fiscal year 1983. The community facility loan program will remain at the fiscal year 1982 level of $130 million. The business and industrial and alcohol fuel loan programs are proposed for termination. We believe that private investment, not public sector pump-priming, should and will increase development in these areas.

FmHA's role in providing loans for water and waste disposal systems and community facilities will be to assist communities in which such projects are essential to the health and safety of the households and only in those small, rural communities in which FmHA will function as the lender of last resort.

The Rural Electrification Administration's electric and telephone loan programs are slated for reductions from $6.5 billion currently available for fiscal year 1982 to $4.6 billion for fiscal year 1983. The budget includes a proposal to reduce the fiscal year 1982 loan guarantee authority of the electric program by $1 billion and a further reduction of loans and loan guarantees for the electric and telephone programs of $900 million in fiscal year 1983. We believe that increasing proportions of the capital needs of REA borrowers can be obtained from non-Federal sources. Most of the rural telephone borrowers, approximately 70 percent, are eligible for tax benefits as are many of the largest electric borrowers. Further, this reduction will also contribute to the Administration's effort to curb Federal intervention into the credit markets.

Domestic Feeding Programs

The Food Stamp program will have a net reduction of $1.7 billion, from $11.2 billion in fiscal year 1982 to $9.5 billion in fiscal year 1983. This

$11.2 billion level for fiscal year 1982 assumes Congressional approval of our $1 billion supplemental request to help assure that we can continue the program through this fiscal year without a benefit reduction. The reduction of $1.7 billion in fiscal year 1983 results from full conversion to the separate nutrition grant program for Puerto Rico, legislative proposals to redefine the factors used to measure income to determine benefit level, and further administrative management improvements.

One key proposal is to restore the integrity of and simplify the definition of income in the Food Stamp program. Income, from whatever source, should be treated equally for all households receiving benefits. For that reason we have proposed to end the current exclusion of energy assistance as household income, as well as to continue the actions of Congress last year in reducing the earned income deduction, by eliminating it altogether.

Another proposal which will yield significant savings is to increase the current benefit reduction rate from 30 percent to 35 percent. This proposal will be felt least by the households with the least income and not at all by households with no net income. In fact, the increase in the value of the thrifty food plan, scheduled for October 1, 1982, will help offset decreases resulting from the change in the benefit reduction rate.

Mr. Chairman, we are aware of this Committee's continuing concern over the food stamp error rate and we are moving aggressively to solve this very expensive problem. In fact, we believe that in fiscal year 1983 it will be possible for the States to achieve a nationwide error rate of 3 percent, and for that reason we have provided no funding for overpayments or ineligible issuances above that level. Please note that 1983 will be the third year of this Administration's efforts to enforce error rate sanctions and incentives which, along with improvements in State administration and technical assistance from the Department, should make a 3 percent error rate an achievable goal.

The Child Nutrition programs will operate at a $2.8 billion level in fiscal years 1982 and 1983. Increased food costs will basically be offset by savings achieved by eliminating the Summer Food program that was significantly reduced in fiscal years 1981 and 1982; and replacing the School Breakfast and Child Care programs with a General Nutrition Assistance grant to the states. This gives the states greater flexibility in setting their own priorities and determining the form of administrative and program management best suited for their State.

The Special Milk program will be discontinued; however, over $600 million worth of milk will continue to be served in the School Lunch program.

We are proposing to transfer the Women, Infants and Children (WIC) program, the Commodity Supplemental Food program (CSFP) and the food component of the nutrition program for the elderly to the Department of Health and Human Services (HHS) in fiscal year 1983. This represents a sorting out of the Federal administrative role in these programs. WIC and CSFP serve a similar target population and have similar goals to the HHS program for Maternal and Child Health. The Elderly Feeding program will be consolidated with other programs under the Older Americans Act serving the same target populations.

Marketing and Inspection Activities

During the Administration's budget review process, we thoroughly reassessed our pest and disease control, marketing and inspection activities and identified a number of programs which are no longer economically justified. Other programs we have determined can better be carried out by state governments or the farmers themselves.

In the Animal and Plant Health Inspection Service, for example, we have found it is no longer practical to continue a brucellosis eradication effort and we plan to shift instead to a control program which will save $31 million in fiscal year 1983. The $91 million cost of currently operating the program far exceeds the annual economic losses from the disease. We will continue to work with the states and the farmers to minimize the infection rate, which is currently less than 1/2 of 1 percent.

In those instances where economic damage does not warrant the cost, where infestations are local, or where control technology is not yet practical, the Federal role is being reduced. We are, therefore, reducing Federal involvement in such pest control programs as witchweed, gypsy moth, pink bollworm, boll weevil, and golden nematode.

In the Agricultural Marketing Service, we plan to begin charging for mailed Market News reports so that reports will only be ordered when they adequately serve the needs of farmers.

In the Food Safety and Inspection Service we plan to improve the efficiency of our meat and poultry inspection activities and use our personnel more effectively. Legislation is being requested that would give us more discretion in performing inspection services at processing plants without sacrificing present standards of product wholesomeness. First year savings of $2 million will result from this change. By fiscal year 1987, we expect yearly savings to increase to nearly $20 million.

Mr. Chairman, this concludes my formal statement. I appreciate the opportunity to present the Department's fiscal year 1983 proposals to the Committee and look forward to working with you.

I will be happy to address any specific concerns that you have.

BUDGET COMPARISONS—FISCAL YEARS 1982 AND 1983

Senator COCHRAN. I would also point out that Mr. Dewhurst has prepared a table comparing fiscal year 1982 budget authority estimates with fiscal year 1983 USDA estimates, which we will make a part of the record.

[The table follows:]

UNITED STATES DEPARTMENT OF AGRICULTURE

Statement of Increases and Decreases in Budget Authority, 1983 Budget Estimates Compared with 1982 Estimates

Agency or Item	1982 Estimate	1983 Estimate	Increase or Decrease
Office of the Secretary:			
Program and policy direction and coordination:			
Office of the Secretary	$1,965,000	$2,448,000	+$483,000
Under/Assistant Secretaries	2,096,000	2,215,000	+119,000
Regulatory hearings and decisions	654,000	743,000	+89,000
TOTAL, Office of the Secretary	4,715,000	5,406,000	+691,000
Departmental Administration:			
Budget and Program Analysis	3,635,000	3,781,000	+146,000
Operations and Finance	4,007,000	3,730,000	-277,000
Personnel	2,712,000	2,429,000	-283,000
Equal Opportunity	2,687,000	2,396,000	-291,000
Safety and Health Management	927,000	830,000	-97,000
Small and Disadvantaged Business Utilization	310,000	279,000	-31,000
Energy	190,000	202,000	+12,000
TOTAL, Departmental Administration	14,468,000	13,647,000	-821,000
Office of Governmental and Public Affairs:			
Public Affairs	7,894,000	6,918,000	-976,000
Congressional Affairs	412,000	464,000	+52,000
Intergovernmental Affairs	322,000	370,000	+48,000
TOTAL, Office of Governmental and Public Affairs	8,628,000	7,752,000	-876,000
Office of the Inspector General:			
Audits and investigations	40,828,000	43,918,000	+3,090,000
Office of the General Counsel:			
Legal services	13,330,000	14,197,000	+867,000
Federal Grain Inspection Service:			
Standardization activities	3,321,000	3,056,000	-265,000
Compliance activities	2,279,000	2,139,000	-140,000
TOTAL, Federal Grain Inspection Service	5,600,000	5,195,000	-405,000
Agricultural Research Service:			
Expanded basic agricultural research	195,327,000	204,927,000	+9,600,000
Animal health and protection research	19,468,000	23,468,000	+4,000,000
Range and pasture research	6,232,000	6,732,000	+500,000
National plant germplasm resources	9,302,000	13,102,000	+3,800,000
National Arboretum security	385,000	635,000	+250,000
Tropical and subtropical research	3,715,000	735,000	-2,980,000
Research on acid precipitation	110,000	979,000	+869,000
Research on the conservation and use of land and water resources	11,803,000	16,903,000	+5,100,000
Human nutrition research	25,206,000	26,206,000	+1,000,000
All Other	154,130,000	174,861,000	+20,731,000
Subtotal, Agricultural Research Service	425,678,000	468,548,000	+42,870,000

Agency or Item	1982 Estimate	1983 Estimate	Increase or Decrease
Agricultural Research Service: (Cont'd.):			
Buildings and Facilities:			
Human Nutrition Research Center, Boston, Massachusetts	5,896,000	--	-5,896,000
Fever Tick Facility, Mission, Texas	700,000	—	-700,000
Human Nutrition Research Center, Grand Forks, North Dakota	2,000,000	—	2,000,000
Subtotal, Buildings and Facilities	8,596,000	--	-8,596,000
TOTAL, Agricultural Research Service	434,274,000	468,548,000	+34,274,000
Cooperative State Research Service:			
Payments under the Hatch Act	141,109,000	144,495,000	+3,386,000
Cooperative forestry research	12,031,000	10,807,000	-1,224,000
Payments to 1890 Colleges and Tuskegee Institute	21,492,000	21,674,000	+182,000
Special research grants	23,141,000	22,666,000	-475,000
Competitive research grants	16,320,000	22,880,000	+6,560,000
Animal health and disease research Section 1433	5,760,000	--	-5,760,000
Federal administration (direct appropriation)	1,363,000	781,000	-582,000
1890 Facilities	--	8,800,000	+8,800,000
TOTAL, Cooperative State Research Service	221,216,000	232,103,000	+10,887,000
Extension Service:			
Smith-Lever:			
For Sections 3b&c	219,376,000	219,376,000	—
Section 3d:			
Pest management	7,531,000	7,067,000	-464,000
Farm safety	1,020,000	—	-1,020,000
Energy	324,000	285,000	-39,000
Urban gardening	3,000,000	—	-3,000,000
Non-point source pollution	702,000	—	-702,000
Food and nutrition education	60,354,000	60,354,000	—
Pesticide impact assessment	1,850,000	1,716,000	-134,000
1890 Colleges and Tuskegee Institute	12,241,000	17,602,000	+5,361,000
Renewable Resources Extension Act	2,000,000 a/	—	-2,000,000
D. C. extension	983,000	983,000	—
Federal administration and coordination	6,321,000	4,528,000	-1,793,000
TOTAL, Extension Service	315,702,000	311,911,000	-3,791,000
National Agricultural Library:			
National cost-sharing to regionalize indexing, document delivery, information creation, and dissemination	--	100,000	+100,000
Integrated reproduction management system	--	50,000	+50,000
All other	8,279,000	8,866,000	+587,000
TOTAL, National Agricultural Library	8,279,000	9,016,000	+737,000

a/ Proposed for rescission.

Agency or Item	1982 Estimate	1983 Estimate	Increase or Decrease
Animal and Plant Health Inspection Service:			
Foot-and-mouth disease (Darien Gap)	1,972,000	2,205,000	+233,000
Screwworm	46,086,000	52,740,000	+6,654,000
Veterinary biologics	7,619,000	8,217,000	+598,000
Contingency fund	986,000	2,500,000	+1,514,000
Agricultural quarantine inspection	44,416,000	45,336,000	+920,000
Biocontrol of plant pests	3,837,000	3,540,000	-297,000
Boll weevil	1,697,000	1,029,000	-668,000
Golden nematode	1,007,000	--	-1,007,000
Grasshopper and Mormon cricket	1,327,000	--	-1,327,000
Gypsy moth	5,191,000	673,000	-4,518,000
Imported fire ant	5,915,000	2,625,000	-3,290,000
Mediterranean fruit fly	8,855,000	8,275,000	-580,000
Miscellaneous plant diseases and pests	483,000	--	-483,000
Noxious weeds	789,000	--	-789,000
Pink bollworm	2,408,000	591,000	-1,817,000
Witchweed	4,723,000	--	-4,723,000
Animal welfare	4,882,000	1,509,000	-3,373,000
Brucellosis	90,896,000	59,896,000	-31,000,000
Cattle ticks	5,883,000	3,730,000	-2,153,000
Emergency programs	4,436,000	3,455,000	-981,000
Horse protection	242,000	148,000	-94,000
Import-export inspection	6,297,000	4,725,000	-1,572,000
Scabies	986,000	--	-986,000
Tuberculosis	5,544,000	4,014,000	-1,530,000
All other	20,905,000	22,325,000	+1,420,000
Subtotal, Animal and Plant Health Inspection Service	277,382,000	227,533,000	-49,849,000
Buildings and facilities	3,000,000	2,386,000	-614,000
TOTAL, Animal and Plant Health Inspection Service	280,382,000	229,919,000	-50,463,000
Food Safety and Inspection Service:			
Slaughter inspection	173,417,000	177,695,000	+4,278,000
Processing inspection	82,223,000	82,778,000	+555,000
Import-export inspection	5,061,000	5,271,000	+210,000
Laboratory services	17,428,000	21,927,000	+4,499,000
Grants to States	30,099,000	32,205,000	+2,106,000
TOTAL, Food Safety and Inspection Service	308,228,000	319,876,000	+11,648,000
Economic Research Service:			
Farmers' Newsletter and Newsline	940,000	--	-940,000
Other free publications	1,200,000	--	-1,200,000
All other	37,220,000	40,584,000	+3,364,000
TOTAL, Economic Research Service	39,360,000	40,584,000	+1,224,000

Agency or Item	1982 Estimate	1983 Estimate	Increase or Decrease
Statistical Reporting Service:			
Distribution of Crop Reporting Board releases	1,212,000	--	-1,212,000
Farmline and information services	232,000	--	-232,000
Surveys for public use only	3,458,000	2,363,000	-1,095,000
Crop data improvement	5,975,000	6,875,000	+900,000
Acquisition of LANDSAT data	50,000	350,000	+300,000
All other	40,709,000	44,106,000	+3,397,000
TOTAL, Statistical Reporting Service	51,636,000	53,694,000	+2,058,000
Agricultural Cooperative Service:			
Research and technical assistance to agricultural cooperatives	4,639,000	3,683,000	-956,000
World Agricultural Outlook Board:			
Acquisition of LANDSAT remote sensing data	--	100,000	+100,000
All other	1,422,000	1,435,000	+13,000
TOTAL, World Agricultural Outlook Board	1,422,000	1,535,000	+113,000
Agricultural Marketing Service:			
Marketing Services:			
Market news	15,192,000	13,743,000	-1,449,000
Inspection, grading and standardization	15,901,000	13,411,000	-2,490,000
Market protection and promotion	2,491,000	1,662,000	-829,000
Wholesale market development	1,463,000	--	-1,463,000
Market supervision and assistance	3,186,000	2,554,000	-632,000
Total, Marketing Services	38,233,000	31,370,000	-6,863,000
Payments to States and Possessions	1,000,000	--	-1,000,000
TOTAL, Agricultural Marketing Service	39,233,000	31,370,000	-7,863,000
Office of Transportation:			
Deregulation impact evaluation	86,000	--	-86,000
All other	2,314,000	2,398,000	+84,000
TOTAL, Office of Transportation	2,400,000	2,398,000	-2,000
Packers and Stockyards Administration:			
Administration of Packers and Stockyards Act	8,806,000	8,564,000	-242,000

Agency or Item	1982 Estimate	1983 Estimate	Increase or Decrease
Agricultural Stabilization and Conservation Service:			
Salaries and Expenses:			
Program formulation and appraisal	13,727,000	13,944,000	+217,000
Operation of supply adjustment, Conservation and price support program	319,060,000	324,103,000	+5,043,000
Inventory management and merchandising	38,213,000	38,817,000	+604,000
Total, Salaries and Expenses	371,000,000	376,864,000	+5,864,000
Portion to be financed through transfers from CCC	-309,000,000	-314,818,000	-5,818,000
Total, Direct Appropriations, Salaries and Expenses	62,000,000	62,046,000	+46,000
Dairy Indemnity Program:			
Indemnity payments to dairy farmers	155,000	--	-155,000
Indemnity payments to manufacturers of dairy products	21,000	--	-21,000
Total, Dairy Indemnity Program	176,000	--	-176,000
Agricultural Conservation Program:			
Cost-sharing and technical assistance to farmers	188,100,000	56,000,000	-132,100,000
Technical assistance (allocation to Forest Service)	1,900,000	--	-1,900,000
Total, Agricultural Conservation Program	190,000,000	56,000,000	-134,000,000
Forestry Incentives Program:			
Cost-share assistance to landowners	11,250,000	--	-11,250,000
Technical assistance (allocation to Forest Service)	1,250,000	--	-1,250,000
Total, Forestry Incentives Program	12,500,000	--	-12,500,000
Water Bank Program:			
Annual payments to landowners and operators	8,800,000	--	-8,800,000
Emergency Conservation Program:			
Emergency cost-sharing assistance to farmers	8,800,000	--	-8,800,000
Rural Clean Water Program	--	--	--
TOTAL, Agricultural Stabilization and Conservation Service	282,276,000	118,046,000	-164,230,000

Agency or Item	1982 Estimate	1983 Estimate	Increase or Decrease
Federal Crop Insurance Corporation:			
Administrative and Operating Expenses:			
Underwriting, actuarial and program development	11,813,000	14,386,000	+2,573,000
Marketing and collections	54,947,000	113,556,000	+58,609,000
Contract servicing and claims	50,840,000	165,761,000	+114,921,000
Total, Administrative and Operating Expenses	117,600,000	293,703,000	+176,103,000
Subscription to Capital Stock	250,000,000	250,000,000	--
Federal Crop Insurance Corporation Fund:			
Premium subsidy	57,456,000	145,575,000	+88,119,000
Agents' commissions	--	27,658,200	+27,658,200
Total, Federal Crop Insurance Corporation Fund	57,456,000	173,233,200	+115,777,200
TOTAL, Federal Crop Insurance Corporation	425,056,000	716,936,200	+291,880,200
Commodity Credit Corporation:			
Reimbursement for net realized losses	2,043,229,000	3,783,244,448	+1,740,015,448
Authority to borrow	5,000,000,000	--	-5,000,000,000
TOTAL, Commodity Credit Corporation	7,043,229,000	3,783,244,448	-3,259,984,552
Office of Rural Development Policy:			
Salaries and Expenses	1,875,000	2,501,000	+626,000
Farmers Home Administration:			
Rural Housing Insurance Fund·			
Loan levels:			
Direct loans	(24,000,000)	(24,000,000)	(--)
Insured loans	(3,700,600,000)	(1,121,000,000)	(-2,579,600,000)
Guaranteed loans	(--)	(--)	(--)
Reimbursement for losses	575,087,000	1,109,722,000	+534,635,000
Total, Rural Housing Insurance Fund	575,087,000	1,109,722,000	+534,635,000
Agricultural Credit Insurance Fund:			
Loan levels:			
Real estate loans	(904,600,000)	(818,000,000)	(-86,600,000)
Operating loans	(1,375,000,000)	(1,510,000,000)	(+135,000,000)
Soil conservation loans	(30,000,000)	(--)	(-30,000,000)
Emergency loans (disaster)	(1,600,000,000)	(1,540,000,000)	(-60,000,000)
Reimbursement for losses	464,083,000	682,074,000	+217,991,000
Total, Agricultural Credit Insurance Fund	464,083,000	682,074,000	+217,991,000
Rural Development Insurance Fund:			
Loan levels:			
Water and sewer facility loans	(375,000,000)	(300,000,000)	(-75,000,000)
Industrial development loans (guaranteed)	(300,000,000)	(--)	(-300,000,000)
Community facility loans	(130,000,000)	(130,000,000)	(--)
Alcohol production facilities Loans (limitation on guaranteed loans)	(250,000,000)	(--)	(-250,000,000)
Reimbursement for losses	180,040,000	336,217,000	+156,177,000
Total, Rural Development Insurance Fund	180,040,000	336,217,000	+156,177,000

Agency or Item	1982 Estimate	1983 Estimate	Increase or Decrease
Rural Water and Waste Disposal Grants:			
Water supply	90,000,000	86,000,000	-4,000,000
Waste disposal	29,000,000	28,000,000	-1,000,000
Combination-water and waste disposal	6,000,000	6,000,000	—
Total, Rural Water and Waste Disposal Grants	125,000,000	120,000,000	- 5,000,000
Very Low-Income Housing Repair Grants	15,000,000	12,500,000	-2,500,000
Rural Housing for Domestic Farm Labor	13,750,000	12,500,000	-1,250,000
Mutual and Self-Help Housing	3,950,000	—	-3,950,000
Rural Community Fire Protection Grants	3,250,000	--	-3,250,000
Rural Rental Assistance Payments	398,000,000 b/	185,000,000	-213,000,000
Compensation for construction defects	2,000,000 b/	2,000,000	--
Salaries and Expenses:			
Increased operating costs	—	6,633,000	+6,633,000
Restoration of pay costs absorbed in FY 1982	—	9,955,000	+9,955,000
Increased travel for field servicing	—	933,000	+933,000
Increase for training to improve servicing	—	582,000	+582,000
Increase in rate of pay for county committee members	—	560,000	+560,000
Increase for automatic data processing equipment	—	550,000	+550,000
Increase to provide for computer support to establish system for long-range cost projections for all loan programs	—	450,000	+450,000
All other expenses for administration of grant and direct and insured loan programs	278,043,000	278,043,000	--
Subtotal, Salaries and Expenses	278,043,000	297,706,000	+19,663,000
Transfer from loan accounts	-3,500,000	-3,500,000	--
Total, Direct Appropriation, Salaries and Expenses	274,543,000	294,206,000	+19,663,000
TOTAL, Farmers Home Administration	2,054,703,000	2,754,219,000	+699,516,000
Rural Electrification Administration:			
Rural Electrification and Telephone Revolving Fund:			
Rural Electrification Program:			
Insured loans	(850,000,000)	(625,000,000)	(-225,000,000)
Loan guarantee commitments	(5,100,000,000)c/	(3,615,000,000)	(-1,485,000,000)
Total, Rural Electrification Program	(5,950,000,000)	(4,240,000,000)	(-1,710,000,000)
Rural Telephone Program:			
Insured loans	(250,368,000)	(75,000,000)	(-175,368,000)
Loan guarantee commitments	(145,000,000)	(145,000,000)	(--)
Total, Rural Telephone Program	(395,368,000)	(220,000,000)	(-175,368,000)
Total, Rural Electrification and Telephone Revolving Fund	(6,345,368,000)	(4,460,000,000)	(-1,885,368,000)

b/ Previously financed under the Rural Housing Insurance Fund.
c/ A $1 billion reduction in the minimum loan guarantee level is proposed in FY 1982.

Agency or Item	1982 Estimate	1983 Estimate	Increase or Decrease
Rural Telephone Bank:			
Capitalization	(30,000,000)	(--)	(-30,000,000)
Loan level	(185,000,000)	(185,000,000)	(--)
Total, Rural Telephone Bank	(215,000,000)	(185,000,000)	(-30,000,000)
Rural Communication Development Fund:			
Reimbursements for losses	--	91,000	+91,000
Salaries and Expenses	29,673,000	30,340,000	+667,000
TOTAL, Rural Electrification Administration	29,673,000	30,431,000	+758,000
Soil Conservation Service:			
Conservation Operations:			
Technical assistance	233,916,000	250,460,000	+16,544,000
Inventory and monitoring	16,127,000	19,810,000	+3,683,000
Soil survey	49,254,000	52,614,000	+3,360,000
Snow survey and water forecasting	3,616,000	3,878,000	+262,000
Operation of plant materials centers	3,558,000	3,781,000	+223,000
Resource appraisal and program development	4,338,000	6,037,000	+1,699,000
Total, Conservation Operations	310,809,000	336,580,000	+25,771,000
Soil and Water Conservation Grants	--	10,000,000	+10,000,000
River Basin Surveys and Investigations:			
USDA cooperative studies	11,326,000	12,342,000	+1,016,000
Flood plain management assistance	1,734,000	1,827,000	+93,000
Interagency coordination and program formulation	2,440,000	2,574,000	+134,000
Total, River Basin Surveys and Investigations	15,500,000	16,743,000	+1,243,000
Watershed Planning:			
Continuation of ongoing planning efforts	8,690,000	9,152,000	+462,000
Watershed and Flood Prevention Operations:			
Watershed operations authorized by Public Law 534	23,434,000	14,859,000	-8,575,000
Emergency watershed protection operations	10,000,000	10,000,000	--
Small watersheds authorized by Public Law 566	158,611,000	92,862,000	-65,749,000
Total, Watershed and Flood Prevention Operations	192,045,000	117,721,000	-74,324,000
Resource Conservation and Development:			
Technical assistance	14,316,000	10,146,000	-4,170,000
Financial assistance	11,474,000	—	-11,474,000
Loan services	210,000	166,000	-44,000
Total, Resource Conservation and Development	26,000,000	10,312,000	-15,688,000
Great Plains Conservation Program:			
Cost-sharing assistance	11,946,000	6,277,000	-5,669,000
Cost-share program and contract administration	3,057,000	2,890,000	-167,000
Technical assistance	6,497,000	6,141,000	-356,000
Total, Great Plains Conservation Program	21,500,000	15,308,000	-6,192,000
TOTAL, Soil Conservation Service	574,544,000	515,816,000	-58,728,000

Agency or Item	1982 Estimate	1983 Estimate	Increase or Decrease
Food and Nutrition Service:			
Child Nutrition Programs:			
School lunch program	425,000,000	452,000,000	+27,000,000
Special assistance for free and reduced price lunches	1,620,300,000	1,768,900,000	+148,600,000
School breakfast program	335,000,000	—	-335,000,000
State administrative expenses	44,538,000	35,411,000	-9,127,000
Summer food service program	61,100,000	--	-61,100,000
Child care food program	276,900,000	—	-276,900,000
General nutrition assistance	--	488,000,000	+488,000,000
Commodity procurement	75,700,000	79,000,000	+3,300,000
Nutrition studies and surveys	3,300,000	2,470,000	-830,000
Nutrition education and training	5,000,000	--	-5,000,000
Total, Child Nutrition Programs	2,846,838,000	2,825,781,000	-21,057,000
Transfer from Section 32	-1,763,948,000	-2,214,690,000	-450,742,000
Total, Direct Appropriations, Child Nutrition Programs	1,082,890,000	611,091,000	-471,799,000
Special Milk Program:			
Cash payments to States	28,100,000	--	-28,100,000
Special Supplemental Food Programs (WIC):			
Special supplemental food program (WIC)	904,320,000	--	-904,320,000
Commodity supplemental food program	29,760,000	—	-29,760,000
Total, Special Supplemental Food Programs (WIC)	934,080,000	--	-934,080,000
Food Stamp Program:			
Bonus costs	9,423,559,000	8,918,000,000	-505,559,000
State administration	501,875,000	526,000,000	+24,125,000
State anti-fraud activities	15,000,000	20,000,000	+5,000,000
Other program costs:			
Printing of coupons	33,497,000	40,200,000	+6,703,000
Shipment of coupons	3,325,000	4,100,000	+775,000
Processing redeemed coupons	9,187,000	11,200,000	+2,013,000
Automated quality control systems	613,000	700,000	+87,000
Work registration/job search	65,000,000	--	-65,000,000
Certification of SSI/Social Security recipients for food stamps	2,363,000	2,900,000	+537,000
Research, evaluation, and demonstration projects	8,291,000	7,950,000	-341,000
Total, other program costs	122,276,000	67,050,000	-55,226,000
Total, Food Stamp Program	10,062,710,000	9,531,050,000	-531,660,000
Nutrition Assistance for Puerto Rico	206,500,000	825,000,000	+618,500,000
Nutrition Assistance for Territories	--	43,760,000	+43,760,000
Food Donations Programs:			
Needy Family Program:			
Commodities in lieu of food stamps	48,020,000	53,980,000	+5,960,000
Payments to distributing agencies for administration	10,600,000	11,220,000	+620,000
Total, Needy Family Program	58,620,000	65,200,000	+6,580,000
Elderly Feeding Program	93,200,000	—	-93,200,000
Total, Food Donations Programs	151,820,000	65,200,000	-86,620,000
Food Program Administration:			
Federal administrative expenses	86,461,000	85,477,000	-984,000
TOTAL, Food and Nutrition Service	12,552,561,000	11,161,578,000	-1,390,983,000

Agency or Item	1982 Estimate	1983 Estimate	Increase or Decrease
Human Nutrition Information Service:			
Research, analysis, and technical assistance	8,535,800	7,738,900	-796,900
Information collection and dissemination	667,200	550,100	-117,100
TOTAL, Human Nutrition Information Service	9,203,000	8,289,000	-914,000
Foreign Agricultural Service:			
Foreign agricultural affairs	20,805,000	22,221,000	+1,416,000
Foreign market development	35,715,000	39,900,000	+4,185,000
Commodity analysis and services	11,174,000	10,072,000	-1,102,000
LANDSAT data	—	7,014,000	+7,014,000
Office of the General Sales Manager	(5,436,000)	(5,599,000)	(+163,000)
TOTAL, Foreign Agricultural Service	67,694,000	79,207,000	+11,513,000
Office of International Cooperation and Development:			
Salaries and Expenses:			
International agricultural development	103,000	106,000	+3,000
International scientific and technical cooperation	3,524,000	3,597,000	+73,000
Total, Salaries and Expenses	3,627,000	3,703,000	+76,000
Scientific Activities Overseas (Foreign Currency Program)	450,000	2,977,000	+2,527,000
TOTAL, Office of International Cooperation and Development	4,077,000	6,680,000	+2,603,000
Public Law 480:			
Financing sale of agricultural commodities for convertible foreign currencies and for dollars on credit terms (Titles I and III)	295,127,000	378,000,000	+82,873,000
Commodities supplied in connection with dispositions abroad (Title II)	704,873,000	650,000,000	-54,873,000
TOTAL, Public Law 480	1,000,000,000	1,028,000,000	+28,000,000
TOTAL, Direct Appropriations for USDA - Agriculture, Rural Development and Related Agencies Appropriations Bill	25,848,037,000	22,008,263,648	-3,839,773,352
Forest Service:			
Forest research	110,392,000	97,990,000	-12,402,000
State and private forestry	63,662,000	47,520,000	-16,142,000
National Forest System	966,791,000	1,036,569,000	+69,778,000
Construction	254,497,000	297,505,000	+43,008,000
Acquisition of lands for national forests, special acts	724,000	753,000	+29,000
Acquisition of lands to complete land exchanges	314,000	147,000	-167,000
Range betterment fund	6,580,000	5,800,000	-780,000
Land acquisition	26,262,000	7,563,000	-18,699,000
TOTAL, Forest Service	1,429,222,000	1,493,847,000	+64,625,000
TOTAL, Direct Appropriations for USDA	27,277,259,000	23,502,110,648	-3,775,148,352

Agency or Item	1982 Estimate	1983 Estimate	Increase or Decrease
PERMANENT APPROPRIATIONS - FEDERAL FUNDS			
Agricultural Marketing Service:			
Perishable Agricultural Commodities Act Fund	2,740,000	2,740,000	--
Funds for Strengthening Markets, Income and Supply (Section 32)	2,226,649,000	2,623,922,000	+397,273,000
National Wool Act	42,078,000	44,632,000	+2,554,000
Farmers Home Administration:			
Rural Housing Insurance Fund	607,614,000	--	-607,614,000
Agricultural Credit Insurance Fund	—	--	—
Rural Development Insurance Fund	--	—	—
Rural Electrification Administration:			
Rural Electrification and Telephone Revolving Fund	(464,000)	(--)	(-464,000)
Rural Communication Development Fund	573,000	1,345,000	+772,000
Rural Telephone Bank	(132,978,000)	(162,634,000)	(+29,656,000)
Total, excluding Forest Service	2,879,654,000	2,672,639,000	-207,015,000
Forest Service	376,285,000	491,760,000	+115,475,000
TOTAL, Permanent Apppropriations - FEDERAL FUNDS	3,255,939,000	3,164,399,000	-91,540,000
PERMANENT APPROPRIATIONS - TRUST FUNDS:			
Agricultural Research Service	2,000,000	2,000,000	—
Animal & Plant Health Inspection Service	2,798,000	2,878,000	+80,000
Food Safety and Inspection Service	719,000	719,000	--
Economic Research Service	50,000	50,000	--
Statistical Reporting Service	12,000	12,000	—
Agricultural Cooperative Service	18,000	—	-18,000
Agricultural Marketing Service	62,702,000	67,535,000	+4,833,000
Soil Conservation Service	900,000	700,000	-200,000
Office of International Cooperation and Development	7,690,000	10,095,000	+2,405,000
Total, excluding Forest Service	76,889,000	83,989,000	+7,100,000
Forest Service	145,000,000	146,600,000	+1,600,000
TOTAL, Permanent Appropriations - TRUST FUNDS	221,889,000	230,589,000	+8,700,000
Supplementals:			
Food and Nutrition Service:			
Food Stamp Program	1,006,616,000	--	-1,006,616,000
Forest Service:			
National Forest System	76,600,000	--	-76,600,000
TOTAL, Supplementals	1,083,216,000	--	-1,083,216,000
Rescissions:			
Extension Service	-2,000,000	--	+2,000,000
Receipts	-1,585,159,000	-2,149,000,000	-563,841,000
TOTAL, UNITED STATES DEPARTMENT OF AGRICULTURE	30,251,144,000	24,748,098,648	-5,503,045,352

INTRODUCTORY REMARKS

Senator COCHRAN. I invite you to proceed and summarize or make such statements from your prepared remarks as you would like, Mr. Secretary.

Secretary BLOCK. Thank you very much, Mr. Chairman. It is a pleasure to be here. I apologize for being late. It appears there are a lot of children and visitors in town right now.

I do have with me the officials that you mentioned, and I have a formal statement for the record. I would like to summarize my formal statement, if I may, and proceed from there. I am prepared to answer questions.

THE CURRENT AGRICULTURAL SITUATION

The domestic agricultural situation can best be characterized by large crop and livestock supplies and sluggish demand. Domestic demand has been sluggish because of slow growth in income, high unemployment and high interest rates. Foreign demand has been slowed by poor economic performance in the rest of the world and the generally high levels of agricultural production abroad, a stronger American dollar, political instability in Eastern Europe, and increasing use of export subsidies and trade barriers by certain countries.

Despite depressed prices, the cash income of farmers is likely to be a record of $150 billion in 1982. However, farmers will be faced with increased farm production expenses largely due to the rising cost of fuel, fertilizer, and borrowing capital. As a result, production expenses have been rising faster than income.

I am optimistic we can do the job of bringing improvement to the agricultural economy. The new Food and Agriculture Act of 1981 provides the necessary authorities we need to move to a more prosperous market-oriented agriculture. I am using these authorities to a great extent for the 1982 crop programs. In addition, as the President's economic program takes hold and stimulates economic growth, the demand for agricultural products will increase. The slowing of inflation will reduce the increase in farm production expenses and lead to a strengthening of farm financial conditions. The medium-term outlook suggests strong recovery during the second half of 1982 and early 1983.

FOREIGN TRADE

On the foreign trade side, we are working aggressively to stimulate the long-term growth in exports and deal with the numerous trade problems we face.

FARM CREDIT SITUATION

The farm credit situation is another vitally important factor in assessing the status of the farm sector. Despite depressed farm income, the financial position of the farm sector is basically sound.

Nonetheless, we cannot overlook the fact that many farmers are experiencing credit and cash flow problems. Farmers should be assured that adequate credit resources are available to them as they enter the spring planting season. Most lenders are finding ways to keep their existing borrowers in business another year. Some of the financing techniques include the rescheduling of debt payments, borrowing additional amounts on existing assets, and postponing large capital expenditures.

The Farmers Home Administration personnel have received new guidelines that will enable them to assist good-faith borrowers who, despite following acceptable production and management practices, are unable to repay their loans.

BUDGET PROPOSAL

Our budget proposal for fiscal year 1983, including the latest CCC estimates, totals $28.4 billion in outlays. The total value of programs and services provided by the Department in fiscal year 1983 is estimated to be $52.2 billion. Program levels in almost every area will be reduced. However, we have provided increases in a few highest priority areas which, we feel, make the greatest contribution to sustaining agricultural productivity and preservation of our invaluable soil resources.

AGRICULTURAL RESEARCH

We continue to hold agricultural research as a high priority. Our Nation's rate of growth in plant and animal productivity has leveled off in recent years. We must invest in fundamental productivity research now in order to assure agricultural growth in future years. Therefore, this budget reflects a $54 million increase for agricultural research activities.

EXPORT MARKET DEVELOPMENT ACTIVITIES

An increase is also provided for export market development activities. In addition, we are continuing to shift our program efforts toward nations which, we feel, have the greatest growth potential for use of our agricultural commodities in the future. In fiscal year 1981, for the first time, a majority of our agricultural exports were made to the developing and centrally planned countries.

CROP INSURANCE PROGRAM

The crop insurance program will be expanded to all 3,000 agricultural counties throughout our Nation beginning in crop year 1982. Crop insurance will be offered for all basic commodities currently eligible for disaster payments, including wheat, rice, corn, barley, grain sorghum, upland cotton, and oats.

ASSISTANCE TO SOIL CONSERVATION AGENCIES

We intend to step up our efforts to provide technical assistance to soil conservation agencies. In addition to targeting technical assistance to the areas of our Nation where soil erosion and water quality problems are most severe, we are encouraging greater involvement by State and local units of government by means of a matching grant program. Such a program was recently authorized in the farm bill.

Conservation financial assistance will be significantly reduced in fiscal year 1983. We feel the Federal role in conservation should be concentrated on providing technical assistance to plan measures for critical soil and water resource problems. Conservation measures should be designed to be carried out by individual landowners and financed to the greatest extent possible by local government, commercial and private financing sources.

CREDIT REDUCTIONS

Reductions in the credit area are also essential to the President's program for economic recovery. Unless we can reduce Federal spending and Treasury borrowing to support Federal credit activities, we have little hope for economic recovery, increased private investment, and renewed productivity in the future.

While our credit programs in the Farmers Home Administration and the Rural Electrification Administration would be reduced about $4 billion, the total of all the Department's new lending programs will continue to exceed $20 billion for this upcoming year. In addition, we will continue to service and, where necessary, reschedule payments for over $112 billion of loans and loan guarantees we estimate will be outstanding at the beginning of fiscal year 1983.

Farm loans will continue at almost $4 billion each year in fiscal 1982 and 1983, with increased emphasis on farm operating loans. Rural housing loans will decrease to $1.4 billion in fiscal year 1983, with assistance focused on the low-income families. Rural community development loans will decrease, primarily due to the elimination of the business and industrial and alcohol fuel loans in 1983.

Loans and loan guarantees for the Rural Electrification Administration's electric and telephone programs will be reduced to a level of $4.6 billion in fiscal year 1983.

NUTRITION PROGRAMS

The nutrition programs will be reduced by about $1 billion in fiscal year 1983, from the fiscal year 1982 level.

The child nutrition programs will operate at a $2.8 billion level annually in fiscal years 1982 and 1983. Increased food costs will basically be offset by savings achieved from eliminating the Summer Food Program and replacing School Breakfast and Child Care programs with a General Nutrition Assistance grant to the States to be used for feeding children. The Special Milk program will be discontinued. However, over $600 million of milk will continue to be served in our School Lunch program.

FOOD STAMP PROGRAM

The Food Stamp program will have a net reduction of $1.7 billion due to the full conversion to the separate nutrition grant program for Puerto Rico, the establishment of a general nutrition assistance grant for the Trust Territories, and proposals to redefine the factors used to measure income to determine benefit levels, and further administrative management improvements.

ELDERLY FEEDING PROGRAM

The Elderly Feeding program and the special supplemental food programs are proposed for transfer to the Department of Health and Human Services, so they can be combined or operated with other programs with similar purposes serving the same target populations.

CCC SUPPLEMENTAL

I would like to take this opportunity to thank the committee for its part in expeditiously providing funds for CCC to the recent supplemental appropriation.

I realize this is an austere budget, Mr. Chairman, and that our priorities may differ on individual items. But, I believe all of us in the room understand the need to reduce Federal spending. We stand ready and willing to work with the committee in its deliberations on the fiscal year 1983 budget.

This concludes my comments and I would be very happy to answer any questions that you and the committee may have.

Senator COCHRAN. Thank you very much, Mr. Secretary.

I wonder, in looking at the total numbers that are before the committee in terms of your budget request this year, and given the low net income prospects that we hear about for farmers in the next fiscal year, is this the time to cut the budget by $3.5 billion?

Secretary BLOCK. I feel that the kind of assistance farmers get in these times really is being stepped up due to the fact that many of these programs are triggered precisely as a result of the kind of income farmers are getting. We project in here, in fact, increased outlays from our original forecast for loan programs through the Commodity Credit Corporation; the farmer-held grain reserves are being increased. We have targeted in 1983, as we did in 1982, an increase in Farmers Home operating loans, although not in some of the others. I really feel that in the area of farm assistance to agriculture, we are supporting the farming population that needs to be supported through these tough times.

EXPORT PROMOTION

Senator COCHRAN. It appears that there are substantial increases being requested for such programs as research and promotion of exports. I know some people don't realize how important that is in relationship to our unemployment problems in America, but we have heard that for every $1 billion in sales of agricultural commodities abroad, approximately 28,700 jobs are created here in the United States. So, I was glad to see the emphasis in the budget on export promotion.

Some have suggested we haven't been aggressive enough in working with the private sector—business and industry—and farmers to sell as much in international markets as we could. What is your assessment of the adequacy of the budget request in terms of doing the kind of job that has to be done to sell our surplus commodities and what our American farmers are producing?

Secretary BLOCK. I am absolutely convinced that the budget for market development is an adequate one and that the funds are absolutely necessary. The moneys that we have requested are enough to keep up with any inflation that may take place and, in fact, give us some additional leeway for growth as we target the areas where we feel the most opportunity lies. So, if there is any part of our budget that is of overriding importance to agriculture and to the whole economy of this country, it must be the part that relates to market development. In times such as these when we have burdensome stocks of grains and other farm products, one solution may be to cut back production a little bit through the farm program. But the real solution has to be to sell these products, which is where expanded foreign markets come in.

FARM CREDIT

Senator COCHRAN. Last year, this subcommittee approved increases in the operating loans for the Farmers Home Administration to help provide needed credit for farmers who were unable to get credit from other financial lending institutions. This year, we notice you have also requested an increase over last year in operating loans and a decrease in acquisition loans. I am, frankly, pleased to see this emphasis being placed on additional credit that will be available to American farmers who need assistance to help finance plantings this year.

Has the Farmers Home Administration, in your judgment, been implementing the policies that you promulgated earlier this year to try to help farmers work their way out of these times of heavy debt and low-income prospects, or are the rumors that we heard last year, that this Department was going to be conducting widespread foreclosures, coming to pass? What is the situation there? We had the Farmers Home Administrator before the committee this morning, and he was bringing us up to date. Do you feel that your policies are being implemented?

Secretary BLOCK. Mr. Chairman, I am convinced our policies have been implemented. I am convinced they are sound policies. Certainly, there are going to be some casualties this year, because these are tough times in agriculture as they are in business and other areas. Agriculture is not alone. But I feel that the Farmers Home Administration is going the extra mile on a case-by-case basis to help keep in business those farmers who have any reasonable chance of survival. Any suggestion that there would be wholesale foreclosure and liquidation is, I think, greatly exaggerated.

CURRENT FORECLOSURE RATE

Senator COCHRAN. We heard from the Administrator of the Farmers Home Administration this morning that the foreclosure rate is less than 1 percent on existing loans that are outstanding with the Farmers Home Administration. Is that correct, to your knowledge? If that is, are there prospects for many more foreclosures or is this about what is anticipated for the balance of this year?

Secretary BLOCK. That is correct, and to my knowledge it should be about this for the rest of the year.

I would point out that we are not pretending that the situation is good in agriculture. We need a turnaround. We need some strength in prices. But for this period of time, farmers are hanging in there, and they are hanging in there tough. Of course, if you are one that is losing out, if you are going to be one of the casualties, you have a lot to cry about, and I understand that. But, overall, agriculture is going to hang tough; it is going to make it through this year, and we are going to plant crops. We just have to look for better times.

INTRODUCTION OF MEMBERS

Senator COCHRAN. I am really happy to see such good attendance among members of the subcommittee this afternoon. I know each member has questions he would like to ask of the Secretary, so I am going to refrain from taking up more time and try to recognize every member of the subcommittee. First of all, I will yield to our distinguished ranking member, Senator Eagleton.

Senator EAGLETON. Thank you, Mr. Chairman. I presume, because of the good attendance, we perhaps better operate under a 10-minute rule.

Senator COCHRAN. I think so, if that is satisfactory to everybody.

BELLMON RECOMMENDATIONS FOR AMERICAN AGRICULTURE

Senator EAGLETON. I have a lot of questions, but I will limit them in light of the time constraints. We will start off appropriately with the case of Henry Bellmon. A year ago this was a great subcommittee. Senator Bellmon and I were running it. [Laughter.]

Senator EAGLETON. He is no longer with us as a Senator.

Senator COCHRAN. Your time has expired. [Laughter.]

Senator EAGLETON. By his own choosing he went back home, and primarily, Mr. Chairman, the reason he went back home was to save his farm. I don't know if you were present for his testimony the other day or if any of the other of my colleagues were. But in precise and minute detail, he pointed out the fiscal bind he was in as a practicing farmer. You read about it, Mr. Lyng, in the local press. He had the figures as to what he lost in calendar year 1980, what he lost in calendar 1981, and what he anticipated losing in 1982. He had gone to his banker, and his banker in essence gives him one more year. And Henry Bellmon is not a "cry wolf" kind of person. He is not a chronic complainer. He is none of that. He is one of the finest individuals I have known in any walk of life. If a fellow like Henry Bellmon is in a crack—a wise, prudent person such as he—I can imagine that there are a lot of other younger farmers who got into the business a lot later than Henry, with debts probably even heavier than his, that are in a double crack.

Based on that, let me ask you to comment on Henry Bellmon's five recommendations that he made to get American agriculture, in his words, "back on its feet," and see if you agree with any or all or none of these.

EXPAND FARMER CREDIT PROGRAMS

One, expand the farmer credit programs of the Farmers Home Administration and implement the economic emergency loan program nationwide.

Do you want me to read all five or do them one at a time?

Secretary **Block**. Why don't we do them one at a time.

Senator **Eagleton**. OK, did you get the first one?

Secretary **Block**. Yes.

Well, we are going to have adequate funding for Farmers Home Administration people this year. There has been some question of opening up the economic emergency loan program with an additional $600 million. We have the guidelines for it, but I am not going to open it up yet. I may open it up later, but at this point in time we have plenty of money in Farmers Home Administration for qualifying farmers.

Senator **Eagleton**. What about the standby authority you have to—not permanently forgive—but to defer the collection of interest and even principal under emergency situations? Do you plan to utilize that?

Secretary **Block**. We may use it in some cases, but I think it has to be done on a case-by-case basis. Any blanket decision to require that we universally postpone collections would put us, to say nothing of the U.S. Government, into the position of being very poor managers of the public's funds.

STRIVE FOR BALANCED BUDGET

Senator **Eagleton**. OK. Point two of the Bellmon recommendations is to get the budget balanced so interst rates could come down.

Secretary **Block**. I think everyone of us is working toward and wants to see a balanced budget. There is no quarrel with that. It is a difficult process. We submit cuts in the budget, and everyone feels we need to have some additions to the budget. So you know, Senator, as well as I do, how difficult it is.

I don't quarrel with the objective of a balanced budget. We need to arrive at one as soon as possible.

STOP USING FOOD AS FOREIGN POLICY WEAPON

Senator **Eagleton**. Number three is, stop using food as a weapon of foreign policy.

Secretary **Block**. I firmly agree with that. I am very pleased that Monday of this week the President made a presentation which, I feel, should reduce the fears and apprehension of our buyers around the world, the grain trade industry and our farmers in this country, that this Administration is going to be a reliable supplier of food and fiber, and that is our intention.

Senator **Eagleton**. The President said at the time of the declaration of martial law in Poland—when he announced some initial steps that were deemed by many, including me, to be quite soft—if they didn't lift the martial law and start acting like civilized folks over there, some harsher measures would come. Can you categorically assure this committee that under no imaginable circumstance a grain embargo will be one of those harsher measures yet to come?

Secretary **Block**. I can assure you and this committee that the President would not impose a grain embargo. However, under the most extreme circumstances, the President could be willing to impose some kind of broad economic sanctions which would not single out agriculture. It is always possible, and the President is not going to tie his hands.

FORM GRAIN CARTEL

Senator EAGLETON. The fourth point from the Bellmon program is, form a grain export compact made up of the United States, Canada, Australia, and Argentina.

Secretary BLOCK. That has been suggested in the past, and I would say that, perhaps, it would be successful for a while. But its long-range success is very doubtful, just as OPEC's long-range success is in great jeopardy.

Senator EAGLETON. It had some pretty good short-range success, though.

Secretary BLOCK. Yes, sir, I agree. But I still think in the long run it may live to haunt the countries that imposed it. I think the same thing could happen in the grain area. As I travel around the world, I am forming the opinion that there are sufficient land resources and technological resources to raise enough grain and farm products to bury all of the continents if prices were high enough to encourage that kind of production.

FOOD PRICES MUST INCREASE FOR ABUNDANT SUPPLIES

Senator EAGLETON. The fifth and last point is, get the consumer prepared; if he wants to continue to have an abundant supply of food, food prices must move higher.

Secretary BLOCK. I believe in that. I think that a consumer must appreciate the fact that food prices are quite a bargain in the United States today. Unfortunately, I don't think they appreciate that. But all one needs to do is travel to any other industrialized country in the world to see it.

Senator EAGLETON. I yield.

Senator COCHRAN. Senator Andrews.

Senator ANDREWS. Thank you, Mr. Chairman.

FARMERS HOME ADMINISTRATION LOAN FUNDS

Secretary Block, I am intrigued with what you said about the availability of money. Let's put it down to something that the average farmer can understand. The headline hunters have been running around our country, particularly in the farm areas, telling everybody who wants to listen that somehow or another there is a great shortage of funds in the Farmers Home Administration. I think that is doing a great disservice to the farmers, because there is credit. When you and I as farmers, Jack, go out, we have to borrow money for fertilizer, seed, and fuel oil. If we can get this credit extended through fall, we can run a pretty good operation. If those independent businessmen who service us as farmers get nervous and start demanding early payment, it is going to make it more difficult. I think it ought to be made crystal clear on the record in this committee that your Department has more money on hand for operating loans than ever before in history. Is that correct?

Secretary BLOCK. That is absolutely true.

Senator Andrews. You are coming before this committee requesting an increase over this already all-time high level of some $120 million.

Secretary Block. $135 million, and what we have in this fiscal year is 50 percent above last year.

Senator Andrews. There is no qualified farmer in this country who has come in for a Farmers Home Administration operating loan who has been turned down by his local Farmers Home Administration loan officer because of lack of funds.

Secretary Block. That is right.

Senator Andrews. I think this ought to be crystal clear. The cuts were made in ownership loans, and they haven't been cut too significantly. But easy ownership money has been one of the reasons for the escalation in land prices that has made wealthy people out of those who have land to sell. They retire to Florida, and the family that has bought that land tries to pay those inflated prices. I think that might help a lot in the public perception of what is going on.

RETURN ON INVESTMENT IN AGRICULTURE

Also, Mr. Secretary, do you have any figures you could give us on the return on investment in agriculture? I told a group of dairy farmers Tuesday night in St. Louis that the interest of farmers is paramount to what happens to interest rates around here, because we are the most highly capitalized industry in this country. There is more investment per farmworker on our farms than in the steel industry. Now, what is our return on investment? Do you have updated figures?

Dr. Lesher. Depending on how you want to count a return on investment——

Senator Andrews. Return on investment and present cost, machinery, fuel, land, and the rest.

Mr. Lyng. It depends on whether you include the increased value of land.

Senator Andrews. You almost have to include it, because the smaller farmer is making that payment on the basis of his rental.

Mr. Lyng. If you include that, isn't it true, Bill, it comes out about the same in the last couple of years?

Dr. Lesher. Returns based on acquisition cost had averaged about 16 percent in the early 1970s, but have declined 5 to 6 percent in recent years. If you want to include the appreciation in land and all the other factors, it is substantially less. Now, if you just want to look——

Senator Andrews. What percent return on investment?

Dr. Lesher. Roughly 15, 16, 17 percent in the early 1970s, declining to 5 or 6 percent in recent years. That is, if you do not include all the different facets, including the appreciation in land and other factors last year. We will double-check that.

Senator Andrews. You mean you get a 15-percent rate of return on agriculture?

Secretary Block. That is only in the early 1970s and only if you do not take into consideration appreciation in the value of the land. I think a better way to do it is if you take the current value of your land and count it against that, and then it averages about 2-percent return.

Senator **Andrews**. What you are getting is, you have about a 2-percent rate of return on investment in agriculture. I learned 16 years ago on the Appropriations Committee never ask a question unless you know the answer.

Dr. **Lesher**. Yes, it goes to roughly 1½ to 2 percent if you include land at current value.

Senator **Andrews**. Would you, for the record, supply what the comparable figures have been in the last 5 years, so we can establish a trend line, Mr. Secretary?

Secretary **Block**. Yes.

[The information follows:]

RETURNS TO EQUITY: FARMING AND MANUFACTURING INDUSTRIES

[In percent]

Year	Farming[1]		All manufacturers	Food and kindred products	Petroleum and coal products	Textile mill products[2]
	Current value	Acquisition value				
1972	5.6	11.8	10.6	11.1	8.7	7.5
1973	10.9	24.4	12.8	12.8	16.6	9.2
1974	6.2	16.6	14.9	14.0	21.0	9.9
1975	5.2	12.7	11.6	14.4	12.5	4.2
1976	2.8	7.6	14.0	14.9	14.4	8.0
1977	2.2	6.4	14.2	13.3	13.6	8.6
1978	3.5	10.4	15.0	13.8	13.3	11.5
1979	3.7	12.2	16.5	14.7	20.4	11.9
1980	1.5	5.1	13.9	14.8	20.1	8.5
1981	1.7	6.2	14.3	13.6	18.9	10.8

[1] Figures are obtained from Economic Indicators of the Farm Sector, ERS Statistical Bullentin No. 674.

[2] Manufacturing returns are after corporate taxes have been deducted. Returns are based on acquisition cost. Data are taken from various issues of the Quarterly Financial Report for Manufacturing, Mining, and Trade Corporations, Federal Trade Commission.

ECONOMIC EMERGENCY LOANS

Senator **Andrews**. Will you release the $600 million in economic emergency loans if there is not enough in Farmers Home operation loans?

Secretary **Block**. I will say we will ensure there will be enough.

Senator **Andrews**. Will you provide for the record the regulation for the economic emergency loans if they are released?

Secretary **Block**. Yes, sir, we will provide those when they are released.

FUNDING FOR RURAL ELECTRIFICATION ADMINISTRATION

Senator **Andrews**. Finally, I understand that the Administration is cutting back sharply funding for the Rural Electrification Administration. Mr. Secretary, this bothers me, because I also sit on the Defense Subcommittee. We have these witnesses coming before us who wear stars on their shoulders. These are friends of yours; they are friends of mine, and they are coming in in the best interests of the country. They are saying, "Senator, we need about $22, $23 billion for the Rapid Deployment Force. We need this Rapid Deployment Force in order to protect our access to the

Middle East—to protect our access to that Middle Eastern oil. You know it is appalling to me that we are spending $23 billion to try to keep access to fuel that isn't even ours, and we are reluctant to invest the amount of money in the generating plants that could supplant some of that imported oil. I find it incredible, Mr. Secretary, that in the case of a co-op in my own State—Basin Electric—they were asked by the Rural Electrification Administration to slip the construction of this gigantic plant by about a year. It is going to add to their cost. The loan funds have been withheld from its Minot plant based on the fact that they are not sure they are going to load that plant.

But the prior administration told the distribution co-ops they couldn't advertise to their cooperative members to use electricity to heat their homes even though it is cheaper than using oil—even though they would be using domestic energy instead of imported—even though it would help us with our balance of payments. Mr. Secretary, have you changed that ruling so that these distribution co-ops can, in fact, advertise to their members to heat electrically, because it is cheaper than oil and because it is going to be a domestic source of energy we are using?

Secretary BLOCK. I am not sure, but I will provide some information on that for the record.

[The information follows:]

NO CONSTRAINTS ON PROMOTION OF TYPES OF ENERGY USAGE

REA has no constraints on its borrowers regarding their promotion of any type of energy usage. On the other hand, efficient utilization of resources and consumer acceptance of concepts that result in the efficient management of peak demands is encouraged. One REA borrower, Minnkota Electric Power Cooperative of Grand Forks, North Dakota, has been very successful in a well developed and promoted plan that results in the use of North Dakota lignite for electric energy generation to displace oil for heating purposes. Well-conceived energy utilization plans, such as Minnkota's, are much more efficient than advertisements that simply encourage the use of electric heat over oil heat.

Specifically, the plant you refer to is probably the Basin Electric Power Cooperative's Antelope Valley Station Project near the town of Beulah, North Dakota. The electric loads of Basin's members have not increased as rapidly as originally projected. Because of this slowdown in growth, the Basin coop revised its schedule for completing the plant. REA concurs with Basin that the revised construction schedules will result in the lowest overall costs. The financial assistance by REA through a loan guarantee and a loan by the Federal Financing Bank has been adequate to date to meet the revised construction schedule. An application for an additional loan guarantee for this project is currently being considered by REA.

Senator ANDREWS. If you look at that and change that rule, I think it will help, Mr. Secretary. I think it will make a lot more sense if you will make the availability of Federal Financing Bank and availability of loan funds determined by the basis of need so we could invest in our own domestic energy development. I think it would save a lot of money and help our economy.

AGRICULTURAL EXPORTS TO RUSSIA

One final thought, Mr. Secretary. When you are talking in those Cabinet meetings, the Secretary of State is having fits about this energy pipeline that is being proposed from the Soviet Union into the NATO countries, and he says that is going to give the Soviets a great deal of leverage over the NATO countries, because the Soviets then will be providing the NATO countries with a good share of their fuel energy. I hope you point out that if we can have the Russians dependent on us for a good share of their food energy, that is even more to our benefit than it is to the Russians' benefit to have the Europeans dependent on them for fuel energy. We have never made that point. But if we could, I think we would get a better understanding in this country of the importance of agricultural exports and the importance of showing the world, the West particularly, the United States has a God-given abundance of food and fiber that can win us more friends. Do those things come up in Cabinet meetings?

Secretary **Block**. Yes, sir, they do. I make the point you are presenting here. I think it is a logical one.

Senator **Andrews**. Well, as an Illinois farmer, Mr. Secretary, I sure hope you will carry that message to that fellow from Connecticut, because I would like to see it stressed more and more.

Secretary **Block**. I think he is aware of it.

Senator **Andrews**. Thank you, Mr. Chairman.

Senator **Cochran**. Senator Burdick.

ECONOMIC EMERGENCY LOANS

Senator **Burdick**. Mr. Secretary, in regard to the $600 million in emergency loan funds, when will they be released?

Secretary **Block**. I wouldn't predict when I would release them. It is not likely I would release them soon, since we have plenty of money in the Farmers Home Administration operating loans. I think those are the appropriate moneys to use for operating. There is not any real savings to the farmer from the other loans anyway, and they have Farmers Home operating loans available to them.

Senator **Burdick**. I get a lot of mail on this subject. There is something wrong here.

Secretary **Block**. I understand, Senator. One of the reasons is there have been a lot of members of the press suggesting that economic emergency loans would provide an additional benefit to farmers, but they are no more beneficial than the operating loan money we have, and we have a lot of that. I think there is a perception out in the country that economic emergency loans are something different or something better, and I don't feel that is the case.

FARM STORAGE FACILITY LOANS

Senator **Burdick**. What is the situation? We first heard that the farm storage facility loan program is going to be cut back, and now I hear through the grapevine it is going to be reinstated. What is the situation?

Secretary **Block**. We will be processing those applications that were in our offices as of February 9, when we temporarily suspended operations. We will soon be processing those applications. We will be taking some additional applications and intend to approach the $50 million level, which is what we had planned for in the beginning.

Right now, we are working with private industry on some innovative programs to finance construction of grain storage facilities. I met with the wheat growers yesterday morning for breakfast and asked if any of them had had any contact with these grain bin construction people. The growers are apparently very pleased with them and told me they looked better than the CCC loans. So we are going to meet in our office Monday with a number of representatives from the grain bin construction industry. We are going to review their programs and compare them to ours. But we are very excited by the possibility of plenty of money from the private sector, very competitively priced to farmers for construction of grain bins. If that is true, it will indeed be the best solution.

STORAGE PAYMENT DIFFERENTIALS

Senator **Burdick**. Mr. Secretary, I am glad you met with the wheat growers, because they met with me also. They asked me this question.

Secretary **Block**. They probably asked me the same one.

Senator **Burdick**. So I am going to repeat it. Farmers are only paid 26.5 cents per bushel from CCC for storage, but when this grain is in commercial facilities, they are paying 9 cents more per bushel. Can you explain to the subcommittee why farmers are not entitled to the same rate commercial facilities receive?

Secretary **Block**. Well, the 26.5 cents level is the level that we have had. I don't know about the differential between the two.

Senator **Burdick**. Nine cents, I believe.

Secretary **Block**. But it would be another budgetary cost to try and increase that. As a farmer myself, I don't think that is a bad payment, 26.5 cents, for storage.

Senator **Burdick**. I know, but why the differential?

Secretary **Block**. I don't know.

Mr. **Ahalt**. It varies by geographic area; the level of it varies. I don't know the particular case that he is raising; our storage payment program of 26.5 cents applies nationwide, but throughout the country you have different commercial rates depending on what the availability of storage is in a given area.

Dr. **Lesher**. There seems to be more commercial storage of wheat than other grains; therefore, you hear more about that situation from the wheat producers than you do from other grain producers. We looked at this issue from a national standpoint and, as Dawson said, found a great amount of variance in the regions. In some areas it is lower than 26.5 cents; in others, it is much higher. It is very difficult then to come out with a national average that really satisfies all.

Senator **Burdick**. You mean there is a commercial rate lower than 26.5 cents?

Dr. **Lesher**. It depends on where you go. In certain isolated situations where you have an abundance, it can happen in various instances. It depends on the year also, Senator. Sometimes you will have a year where there is a shortage and then years where that is not the case. It varies.

Secretary **Block**. Senator, I will submit something for the record if you don't mind, and I am going to look into it myself to find out why there is a difference, because I am curious.

Senator **Burdick**. Thank you. May I hear from you soon?

Secretary Block. Yes.

[The information requested follows:]

STORAGE PAYMENTS

The Food and Agriculture Act of 1977 specified that the Secretary of Agriculture should pay participants of the reserve program an amount appropriate to cover the cost of storing wheat and feed grains. Subsequently, the Agriculture and Food Act of 1981 provided authority for payment in such amounts as the Secretary determines appropriate to encourage producers to participate in the program.

Currently, the annual storage payment for the farmer-owner reserve (FOR) is 26.5 cents per bushel for wheat and feed grains. This rate is uniform throughout the United States. The storage rate (national weighted average) Commodity Credit Corporation (CCC) may pay to store its grain this year in commercial warehouses averages 31.8 cents per bushel per year for wheat and 31.2 cents per bushel for corn. These rates vary from State to State and by location due to supply and demand conditions of elevator space. Also, some States, through legislation or regulation, set a specific rate to be charged. Other States set a range within which the rate may be set. As an example, the specific rate in North Dakota is 36 cents per year and South Dakota is 2.5 cents per month; while Nebraska, Kansas, and Montana have minimum and maximum rates that may be charged. The tendency in these States is for the warehouseman to charge nearer to the maximum.

The General Accounting Office in their report CED-81-70 (pages 42-43) calculated the average on-farm storage cost per bushel for fiscal year 1979 at 21.7 cents per bushel if the useful bin life was 10 years, and at 16.4 cents per bushel if the useful bin life was 20 years. Using a 12 percent inflation factor for the intervening years, the cost for fiscal year 1982 would be 30.5 cents per year if the useful bin life was 10 years, and 23.0 cents if the useful bin life was 20 years.

The farmer elects where the reserve grain shall be stored. We estimate that about 75 percent of the farmer-owned reserve is stored on the farm. We also estimate that over 80 percent of the on-farm storage capacity was constructed prior to fiscal year 1979.

We believe that the 26.5 cents per year storage payments for the farmer-owned reserve adequately compensates the farmer for storing the grain. Granted, some farmers may not be fully reimbursed for their storage costs if they must depend on commercial warehousemen to store their reserve grain. The storage payment serves as an incentive to encourage participation in the reserve. It is not intended to fully offset the actual cost of storage incurred by each farmer.

CAPITAL SOURCES FOR REA BORROWERS

Senator Burdick. Now, on the rural electric and telephone facilities, I understand the reductions will be from $6.5 billion currently available to $4.6 billion for fiscal year 1983. The budget also includes a proposal to reduce the fiscal year 1982 loan guarantee authority in the electric program by $1 billion and a further reduction of loan and loan guarantees in the telephone program to $220 million in fiscal year 1983. Then you go on to say, "We believe increasing the proportion of capital needs of REA borrowers can be achieved through non-Federal sources." Now the REA's that I know don't have a great deal of equity. They try to serve the farmers more or less at cost. They don't have much equity. Where would they get the loans; from what institutions that are non-Federal?

Secretary Block. It would have to be handled on a case-by-case basis, Senator. But what we are up against, if I may show you a chart, that doesn't have all the answers necessarily, but it is kind of the problem we face, and I think it is a rather serious problem. It is USDA credit activities, distribution of the 1983 credit. We are coming into 1983 with outstanding loans of $112 billion. Everyone says well, you are cutting this back and you are cutting that back. But, we are going to add another $20 billion. That is a big increase;

it is about 18 percent just in 1 year. In every one of these programs, if we didn't cut some of them back, we would be adding $30 billion or whatever. The objective is to try and get some under control; so we had to set priorities. I frankly set the priorities in the area of farm operating loans. I felt that was extremely important that we keep those up. Commodity loans, a big increase down here, it is bigger than this. Those commodity loans, as you know, are important for farmers to keep operating.

So I guess it was just a question of how much we were willing to add to the outstanding loans and guarantees that the Federal Government has. I don't know the answer as to the exact balancing point. You have a good point though; I just wish there were more money for them.

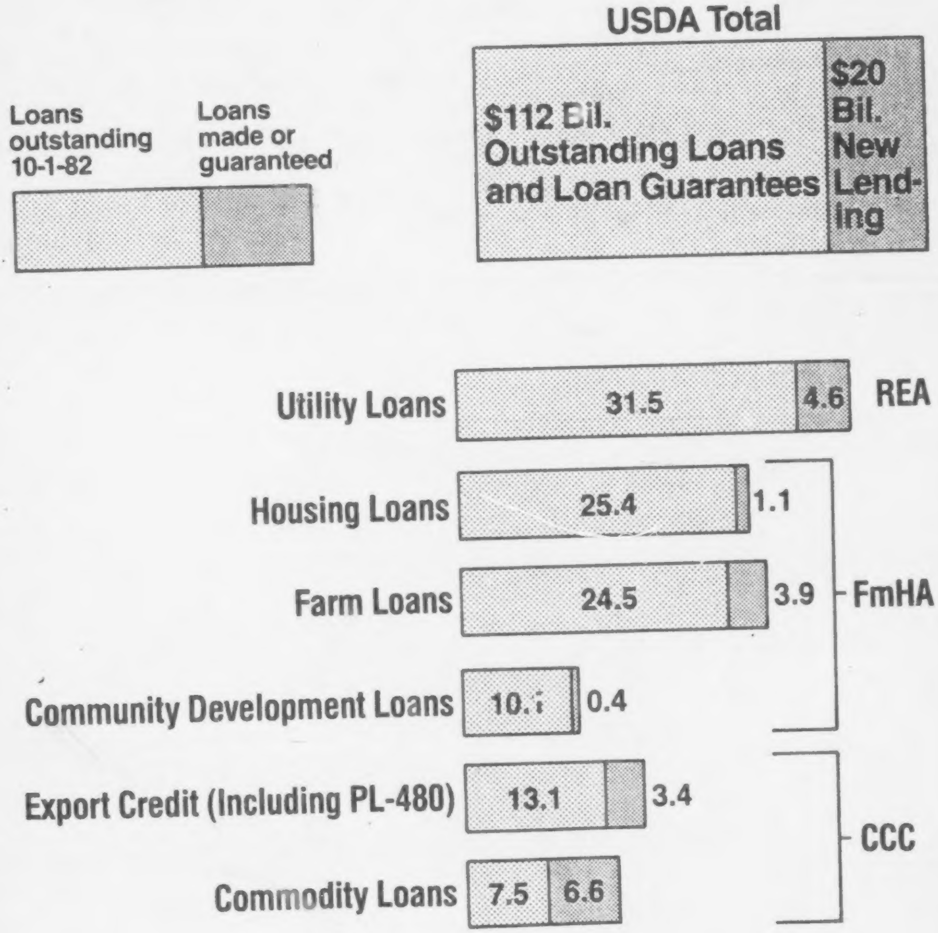
Senator **Burdick**. I understand it all right. I, for the life of me, don't know where those non-Federal sources are for an REA loan of any kind.

Secretary **Block**. They are already getting some money from private sources. Maybe you are suggesting there isn't enough new funding for them.

[The chart follows:]

Distribution of FY 1983 USDA Credit Activity

(Dollars in Billions)



PROSPECTS FOR FARM INCOME

Senator **Burdick**. Now I am going to ask you an easy one.

Secretary **Block**. Thank you.

Senator **Burdick**. Do you believe that farm income can be improved this year over last year without legislative action?

Secretary **Block**. I believe that farm income, if it is improved this year over last year, will be so because of something other than legislative action. I don't feel we can cause it to happen with legislative action. It is going to happen, if it does, because of weather, because of a pickup in exports some place in the world, because of inflation coming down and staying down to cut the farmers' cost of operation. I just don't think there is any way we can legislate prosperity into agriculture. We have to have the right kind of circumstances. I can't predict they will be there this year for sure. Our indications are now that farm income will not be up over a year ago. In fact, I fear it will be down. But I also stand optimistic we may be in a position to lay a base, so later in the year and as we move into 1983, we can move into better times.

I was in Nebraska this year and saw a glimmer of hope out there. It is mostly because the livestock, the meat industry, is starting to see some brighter times. The hog industry and the cattle industry have turned up some. They are getting a little bit excited, and that is a good thing to see, having experienced a lot of tough times in the beef industry. So there is some improvement in the meat side, and if we can get something to happen on the grain side, maybe some big sales, we will have a chance there.

FARM PROGRAM PARTICIPATION

Senator **Burdick**. I have been told there is a grave question as to how many farmers are going to sign up in the farm program without a paid set-aside, and without a paid set-aside, you are going to have more production naturally. In lieu of a paid set-aside, would you look kindly upon an increase in the target price of 45 cents, loan price of 45 cents in lieu of that to get sign-up?

Secretary **Block**. I really feel that the program is set for this year, and I am very, very optimistic about a strong sign-up and, ultimately, a strong compliance. Of course, the compliance is the key. Signing up is important, but compliance is the key. But it looks very good. I have talked with ASC directors in several States, and the farm papers are starting to say it is going to come out well and that we are going to get a good sign-up. Farmers are telling me that it is. So I think we will just go ahead with it and watch the program work.

I don't pretend to think it is the whole solution, though. The whole solution is sell the crop.

Senator **Burdick**. I agree with you. Raise wheat and sell it.

Senator **Cochran**. The Senator's time has about expired.

Senator **Burdick**. Thank you, Mr. Chairman.

Senator **Cochran**. Senator Kasten.

Senator **Kasten**. Thank you, Mr. Chairman.

REVISION OF DAIRY PRICE SUPPORT PROGRAM

Mr. Secretary, after your recent speech in Seattle where you called the dairy situation, in your words, "intolerable, embarrassing, and unacceptable," and your decision to call for the major dairy symposium which was held in Kansas City this week, I am shocked—as a matter of fact I am just amazed—that you go through an entire 17-page statement here and make no reference whatsoever to the dairy program. As a matter of fact, the only reference you have to milk is the line that says, the special milk program will be discontinued. I understand that you are in the process of drafting recommendations for Congress and that they are going to include more major revisions in the dairy price support program. Don't you think the dairy industry, the dairy farmer and the problems you are faced with at least deserve discussion?

Secretary **Block**. I think it is very important that you brought it up, and I am pleased to have a chance to speak to the issue. It certainly wasn't my intent to neglect the dairy industry, because in the opportunities I have had to talk to farmers, it is always an important topic of discussion.

I was very pleased with the turnout of the dairy industry people and others interested in submitting recommendations on the dairy program at our symposium in Kansas City. If I might report, we had recommendations all over the board. I mean, from killing cows, to Government controls, to throwing the whole thing out. But it was a very responsible effort on the part of the dairy industry to come to grips with a problem that it recognizes the existence of, and this is what is really encouraging. We are evaluating the information we got there. I guess the easy part was to hold the symposium. The hard part is to evaluate it and come forth with some recommended legislation that can help the dairy industry and meet the concerns we have with program costs. We will be striving, additionally, for something that the Congress is going to be pleased with.

Senator **Kasten**. It was said to me, and you yourself said, that all our dairy farmers need to do is simply cull out about 1 million to 1,200,000 cows to solve the problem. Did you say that? Did you mean that?

Secretary **Block**. Yes, if they would. I had——

Senator **Kasten**. Are you are just saying that, or is that your recommendation?

Secretary **Block**. Well, that would be a solution. It would be a very good solution if they would do it. But you have to understand just because a Secretary says that would solve a surplus problem doesn't mean it will happen. I could have said 2 years ago if we sell a million sows, we would sustain hog prices. But it doesn't mean it will happen.

DAIRY EXPORTS THROUGH PUBLIC LAW 480

Senator **Kasten**. On March 22, I wrote to you expressing my concern and disappointment that your Department failed to immediately implement the provisions of an amendment which I sponsored to the 1981 farm bill. That amendment would essentially move more milk into the Public Law 480 program and thereby reduce storage. I am further concerned by reports that more than 17 million of the dollars that are in that program may be reallocated this year from the reduced cost of milk and the savings used to purchase increased supplies of grain. It has been reported to me that this same concern and criticism of the Department's failure to implement the provisions of this amendment to the Public Law 480 program were voiced very emphatically in Kansas City.

First of all, would you explain why the Department failed to act promptly in terms of implementing this provision of the Public Law 480 program which would increase dairy exports?

Secretary **BLOCK**. Senator, I don't have the answer to that; I am looking around to see if I have somebody who does.

Dr. **LESHER**. Senator, that issue came up at the dairy symposium in Kansas City. I doubt that any of us here have seen your letter as yet. As you indicate, effective December 22, 1981, section 403(b) of the Agricultural Trade Development and Assistance Act of 1954 (Public Law 480) was amended by section 1214 of the Agriculture and Food Act of 1981. As amended, section 403(b) provides that in determining the reimbursement due CCC for CCC-owned commodities acquired under a price support program and made available under Public Law 480, the commodities shall be valued at a price not greater than the export market price as of the time the commodities are made available under Public Law 480. This price determination is to be made by the Secretary of Agriculture. Prior to this amendment, section 403(b) provided that such commodities shall be valued at the export market price, as determined by the Secretary of Agriculture, as of the time the commodities are made available. The specific price determination by the Secretary has not yet been made, and no reallocation of funds has occurred.

Senator **KASTEN**. We worked with you on this amendment. The purpose was to increase the exports of dairy products. It hasn't been implemented. Now we learn through back channels that you intend to use this amount for grain rather than dairy. But if you don't know, get back to us on that.

Secretary **BLOCK**. We can submit information for the record, and we would be glad to work with you on it directly, Senator.

[The information follows:]

REIMBURSEMENTS TO CCC

Prior to the passage of last year's Farm Bill, the Secretary of Agriculture was required to reimburse the CCC for commodities purchased for Public Law 480 at the export market price. The Kasten amendment, which ultimately became Section 1214 of the Farm Bill, granted the Secretary the discretion to reimburse CCC at "a price not greater than" the export market price.

The Administration plans to implement the Kasten amendment by a Secretarial determination for the appropriate year. In fact, such a determination is under consideration by the Department for this fiscal year. At present, the only commodity being used from the Commodity Credit Corporation's stocks and thereby eligible for such pricing is nonfat dry milk. It is currently being used in the Title II donations program.

We estimate that the "savings" from re-pricing milk in fiscal year 1982 will be about $17.5 million, as you indicate. We do plan to use this money to program additional commodities under Title II. However, we cannot use all of the money to program milk this year, because the donation requests and budget allocations were already fairly firm by the time the law was passed. We will try to program more milk, but due to the nature of the Title II planning process, we are more likely to be able to move other commodities in this fiscal year. Since we have more lead time, we will probably be able to program more milk next year in our blended foods donations.

SPECIAL MILK PROGRAM

Senator **Kasten**. You stated in Seattle that the dairy production surpluses must be reduced to what you call acceptable levels, and the Administration will propose changes in the program to achieve these reductions. Keeping in mind that we have to work not only on the supply, but also on the consumption side, I simply can't believe that the Administration is proposing the elimination of the Special Milk program. It just doesn't seem to me to make any sense either from a nutritional point of view, or from an economic standpoint. We have these huge surpluses, and you are cutting milk that could be consumed. As you know, the Special Milk program was cut significantly last year. It now provides the only source of milk or nutritional assistance for children in those schools that do not have the regular School Lunch program. My understanding is that the need for the special program is increasing, because a number of schools have dropped their regular School Lunch programs. For example, in Wisconsin, 49 schools dropped the School Lunch program this year. It seems to me that the Special Milk program is needed now more than ever, and, frankly, to eliminate it is just plain shortsighted. Can you explain why the USDA, on the one hand, is leading the charge to revise the dairy program in an effort to reduce the surplus and, at the same time, is proposing to eliminate an important nutritional program which encourages consumption?

Secretary **Block**. Senator, that program is so small—if we are talking about the dairy problem, it represents about $28 million—compared to a dairy program that has a $2 billion problem. Whether we keep Special Milk in place or not is not going to make much difference. I would rather take a look at it from the standpoint of whether it is needed for children. I think that is the better argument for it. In that case, it is a small program, and it is only in a few schools. We just feel it is not appropriate to keep it in place under the circumstances.

MILK GIVEAWAY PROGRAM

Senator **Kasten**. It would seem to me that since milk is classified as a bonus commodity, as cheese is, we ought to do everything we can through the School Lunch program, through the Special Milk program, and through other programs to use this milk. I would guess that with the cost of reimbursing the schools presently at 9 or 17 cents per carton, it costs less in the long run to reimburse the schools for the special milk program than it does for us to take the milk and to convert it from fluid to dry, to transport and to store these additional supplies. It seems to me that it is just senseless to eliminate this program and add to the dairy surplus.

Secretary **Block**. I understand what you are saying.

Senator **Kasten**. Will you work to change that?

Secretary **Block**. No, but I am willing to take a look at it. I do understand what you are saying. But it is just such a small part, it is not going to solve the dairy problem. That is my problem, the whole dairy issue. It would help a little bit, and it would provide some milk consumption, but we are giving away dairy products—$550 million worth—through the regular school lunch programs and through the other feeding programs.

We are trying to concentrate in two areas, and those are the school lunch program and the food stamp program. We are eliminating many of these other smaller feeding programs or changing them or trying to really concentrate in the two areas, we think, are the most important part of our responsibility to the public.

Senator KASTEN. Well, Mr. Secretary, my time has expired, but I simply don't agree that your problems managing two or three programs that aren't very big justifies throwing them out. Two efforts we have made, the amendment to the Public Law 480 program and the special milk program, both would increase consumption. You might say these are not a lot. But what we need to do is increase consumption through export and domestic consumption, and I think the Department ought to be working with, rather than against, programs that increase consumption.

Thank you, Mr. Chairman.

Senator COCHRAN. Senator Mattingly.

PROGRAM TO KEEP FARMERS IN BUSINESS

Senator MATTINGLY. Thank you, Mr. Chairman.

Just briefly, you had originally talked about your policies, and I say some of your policies are good. But I think when it comes to implementing policies, that is where I get somewhat concerned. On page 12 you have the comment that you said to Mr. Cochran that, "I can assure you that our first priority is to keep farmers in business and that our credit policies for fiscal years 1982 and 1983 will allow us to achieve that objective."

Now my question is, the first part, to keep farmers in business, is that to keep good farmers in business or is that to keep all farmers in business?

Secretary BLOCK. Well, I hope it is to keep farmers in business who have a reasonable chance of success and survival in the final analysis. I would say in all honesty, one of the reasons why we have the problems we have is that we may have gotten a little too bullish on agriculture and its prospects. When I say we, I am talking about the public, the private lending institutions, and the Farmers Home Administration, which has dispensed a lot of money in the last 4 or 5 years. In fact, in the last 4 years, we have lent out more money than in the previous 24 years. We have gotten some people in trouble. So we have to be more responsible than we were. That is why we are considering these people on a case-by-case basis.

Senator MATTINGLY. That is what I want to get down to, to the implementation and to the FmHA, because the telephone calls and the letters that still come to me are ones saying there are still loans being made to people who shouldn't be getting loans, and we are giving 99.9 percent of the farmers a bad name because of a small percentage of people. That means we have dairy surpluses, yet Farmers Home Administration is out there encouraging new people to go into the dairy business. Talk about not making sense. It doesn't make sense, unless somebody can explain it to me.

Secretary Block. It doesn't make sense, and we have been working to discontinue that.

Senator Mattingly. I guess that is what my big concern is. Sending in whatever force you have, let's try to bring this to a halt. I think not only would it give everybody a better image, but I think it would give a lot of security to the farming community that is really responsible, which is the overwhelming majority of that community. I would encourage you and your fellow travelers there to hustle.

Secretary Block. The Farmers Home Administration, I am convinced, set a lot of people up in business, in the dairy business, in the last 4 years. Now that is part of our problem.

Senator Mattingly. This is because the policies from county to county are not exactly the same, and I would encourage your personal input into that if I could.

Secretary Block. Yes, sir.

Senator Mattingly. Thank you.

Senator Cochran. Thank you, Senator.

Senator Sasser.

Senator Sasser. Thank you, Mr. Chairman.

REPLACEMENT OF SCS HEAD WITH POLITICAL APPOINTEE

Mr. Secretary, I quite frankly have been very disturbed with recent press reports that indicate that the head of the Soil Conservation Service is being replaced with what, apparently, appears to be a political appointee. Now, throughout the history of the SCS, the head of that agency has been a career employee of the Department of Agriculture. I happen to have had an association with Mr. Norman Berg, who is being replaced as Chief of the SCS. He has been with the SCS for 39 years, as I think you know. He came down to my State of Tennessee about 1 year ago to participate in an effort we had down there, Mr. Chairman, to save our soil operation, to focus attention on soil washing away in rural west Tennessee. I was most impressed with him. My information is that for the last 3 years he has performed in exemplary fashion and in a nonpartisan manner. I don't even know what political party he represents. He has performed his duties ably and professionally, and I know of no reason to remove him from that post.

I think it is an extremely dangerous precedent here to remove professional employees in the Soil Conservation Service and in the Forest Service. They have both prided themselves in the Department of Agriculture as relying on their professional staff.

I understand that you indicated the reason for the change was the President wanted a farmer in the SCS position. Well, that is fine to have a farmer. I think that is great. But in a way that is sort of similar to Boeing firing its aeronautical engineer and hiring a pilot to design the airplanes.

I think farmers have a role to play, but so do the professionals in the field of agriculture. The Nation's farmers, at least I know in my State, were well pleased with Norman Berg, and we don't see any need to change that position.

Frankly, it appears to me, and I just returned from a meeting with farmers yesterday, that the Administration is in trouble with the farmers, and it is attempting to make a change in the top management of SCS as a window dressing.

Now, I am sure Mr. Myers, the new head of the SCS, is a fine individual. I think you have known him for many years. You all were both young farmers together. He is from Missouri, not far from my State and the home State of Senator Eagleton, of course. But that is not the point. The point is, it appears to me an arbitrary political decision has been put above the best interests of a fine and exemplary agency and, quite frankly, I am concerned about that, and I wanted to express my concern today.

Secretary **Block**. Senator, I would like to alleviate your fears and concerns to the extent I can. It certainly was not an arbitrary decision, and it is not based on political considerations. The point is, it is true, the President said he wanted farmers in positions of upper echêlon management. The whole of the Soil Conservation Service is made up of technicians, specialists in soil conservation, everyone is, and I think that it is quite appropriate that you have one farmer there at the head of the organization—a farmer who knows soil conservation from the practical standpoint of operating the land, farming it, tilling it, someone who I think you agree, has good credentials. He has distinguished himself in the field of agriculture by working on the State Farm Bureau Board and with the Pork Producers Association, by practicing soil conservation policies and by working on the State Soil Conservation Commission for the Governor in the State of Missouri. He has a tremendous record and is an outstanding person to conserve agricultural land and give agriculture the kind of practical guidance that we need at a time when we have some problems in terms of soil conservation.

It is not that we don't feel the technicians and the specialists aren't important. They will be there; they will have their input, and they are important.

I concur with you when you suggest the previous Chief is a fine individual. He has an exemplary record, and he has served me well.

Senator **Sasser**. Why are we replacing him?

Secretary **Block**. Because, as I explained, I feel the appropriate person to head the agency is a farmer. If you look at the history—1953 to 1975—the head of that agency was a schedule C. Then during Secretary Butz's term, he brought in someone to head it, someone out in the country who was not in the system. Then when Secretary Bergland came in, he removed Secretary Butz's man and put the new man in. So there have been some changes over time, and the changes were to suit the needs of the industry and to satisfy the objectives of the Secretary of Agriculture and the administration in power. I think that is only appropriate.

We have a big job to do in the Soil Conservation Service, and I am optimistic we can get the job done.

Senator **Sasser**. Well, I think we do have a big job to do in soil conservation in this country. I see about a third of my State washing away in rural west Tennessee. I don't think we are going to do what needs to be done by getting rid of or shuffling aside the professionals and those who have made a career of trying to save the soil in this country. The Soil Conservation Service, it appeared to me, had been doing a pretty doggone good job under trying conditions for a number of years. There used to be a slogan going around, "If it ain't broke, don't fix it." I didn't see anything broke about the way we have been selecting the Chiefs of the Soil Conservation Service, bringing them up out of the professional ranks.

That is my statement on it, Mr. Chairman.

Senator **COCHRAN**. Thank you, Senator.

Senator Eagleton, do you have other questions?

Senator **EAGLETON**. Mr. Secretary, you are not being completely forthcoming with Senator Sasser when you give us that schedule C malarkey. Technically the job was schedule C, but the person occupying the position was a career professional in soil conservation. Technically, it was a schedule C from 1950 to 1975, but it wasn't a political guy in there. It was a career soil conservationist, and we will supply the names for the record.

[The information follows.]

SCS DIRECTORS

Of the six men who have headed SCS in its 49-year history, all have been career USDA professionals. Hugh Hammond Bennett was a soil scientist with USDA. He served as chief from 1933 until 1951. Dr. Robert M. Salter (1951–1953) was a USDA research scientist and chief of the USDA's Bureau of Plant Industry, Soils, and Agricultural Engineering, before being named SCS chief. The remaining four, Donald A. Williams (1953–1969), Kenneth E. Grant (1969–1975), Ronello M. (Mel) Davis (1975–1979), and Norman A. Berg (1979 to the present) were career SCS professionals.

Senator **EAGLETON**. Mr. Lesher, do you own or operate a farm?

Dr. **LESHER**. I presently do not.

Senator **EAGLETON**. What are you doing in your position? You are not a practicing farmer.

Mr. Lyng, do you own or operate a farm?

Mr. **LYNG**. No.

Senator **EAGLETON**. What are you doing in your high-level job? You are not a practicing farmer.

Mr. Dewhurst, do you own or operate a farm?

Mr. **DEWHURST**. No.

Senator **EAGLETON**. What are you doing in your high-level position? You are not a practicing farmer.

Mr. Ahalt, do you own or operate a farm?

Mr. **AHALT**. I own a part-time farm.

Senator **EAGLETON**. Part-time farm. You are lucky. [Laughter.]

Part-time; you probably couldn't stay in it full-time. Part-time farmer, does that qualify? I thought the President wanted full-time farmers.

You know, I was going along pretty nicely on this, and I didn't ask Senator Sasser to come in and ask these questions. A little candor is helpful in this business. So the President told you he wanted a lot of full-time farmers in all these jobs. Give me the list of all assistants and comptrollers and economic advisers, and you have some of them with you but probably a lot of them back at the store, and tell me how many of them own and operate a farm. You know it is well-known that you decided to have a full-time farmer in this job, because he is your buddy. That is why you made the decision. So a career man that you have eulogized, with 39 years of loyal, devoted service; you thought so highly of him, you kicked him in the butt. That is what you did.

Senator **Andrews**. He picked a constituent of yours. That must make him better than others.

Senator **Eagleton**. He didn't have my blessing, and I think it is reflected here today.

Secretary **Block**. Senator, may I quickly point out the people you are talking about here may not be operating a farm today, but they spent a lifetime, most of them, either operating a farm, raised on a farm, or working on a farm. They are not operating——

Senator **Eagleton**. Who else do you have in the Department who are full-time farmers? The room is full of civil servants. How many of them are full-time farmers in the room?

[No response.]

Senator **Eagleton**. Well, let's move on.

EFFECT OF CURRENT FARM PROGRAM

Mr. Secretary, I have a report from the University of Missouri School of Agriculture that is being sent out to you, prepared by Prof. Abner Womack, Prof. Stanley Johnson, and research analyst Robert Young. I am not trying to blind-side you on this; this report was just delivered to me today at noon. So I am not going to give you a blind-side question on something you haven't had time to study and analyze.

I am going to ask that this report be placed in the record in full, Mr. Chairman.

Senator **Cochran**. Without objection, it will be included in the record at this point.

[The report follows:]

ECONOMIC IMPLICATIONS OF THE 1982/83 REDUCED ACREAGE PROGRAM FOR CORN, WHEAT, AND SOYBEANS

Abner Womack, Stanley Johnson, and Robert Young*

The Reduced Acreage Program (RAP) utilizes the farmer-held reserve as a major attraction for joining the 1982/83 farm program. This is a departure from previous programs. Greater incentives were offered directly for land reduction via more lucrative target prices or a paid diversion or both. Minimal incentives were offered to increase the reserve. In the event of a normal or above average crop, reserves were increased but only to the extent that support or loan prices were protected. Under this strategy, the program participant was likely to receive greater benefits and reserves would be increased, but reserve incentives were only strong enough to prevent participants from selling below the loan rate.

This program goes a step further by offering relatively high reserve loans. The enticement will be for the participant to place grain in the reserve in order to receive maximum benefits. The problem with this option is that reserves are already substantial. Any additional increases will eventually have to reach the market. Without some major reductions in supplies or substantial increases in demand, these reserves become a critical issue that must be dealt with in the future.

The focus of this paper is to examine the potential direction this program will take in 1982/83 and some consequences for 1983/84. Also, this reserve option is compared to the likely outcome of a paid diversion program with less incentives for joining the reserve.

The following cases have been examined. First, the implication of low participation and reserve activity in the corn and wheat program with corresponding implications for soybeans, Case A. Second, low participation but high reserve utilization, Case B. Third, high participation and high levels of reserve activity, Case C; and fourth, a reduced acreage program plus a paid diversion of 10 cents for corn and 40 cents for wheat with less incentives for building reserves, Case D.

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*The authors are associate professor, professor, and research analyst in the Department of Agricultural Economics, University of Missouri-Columbia.

Alternative Scenarios for the Corn Sector

Current estimates imply a corn carryover of about 1.95 billion bushels for the 1981/82 crop. Of this amount, only 500 million bushels are likely to be in the free market. The remainder of 1.15 billion and .3 billion are currently projected to be in government controlled reserves (Table 1). Each of the cases examined are given in Table 1. The most likely outcome is Case A. For this reason, comparisons are made for three potential crop levels. Since a paid diversion is an alternative strategy, three weather scenarios are also examined (Case D).

Since the program is fairly attractive for reserve participation, Cases B and C examine the implications of activity that would remove enough grain from the market to support the breakeven prices of $2.90 to $2.95.

Case A (Table 1) reflects 25 percent participation by corn producers in conjunction with 25 percent in the wheat program. If reserve participation is only strong enough to hold prices at or near the loan rate, these results imply roughly two chances out of three that 1982/83 market prices will be in this bottom-side range. Acreage is estimated to be large enough, 83 million, to sustain down-side market pressure. In conjunction, farmer-held reserves would have to increase about 100 million in the normal weather case and 300 million in the good weather scenario. The poor weather case yields a season average of $2.86 which is not high enough to release any of the 1.15 billion-bushel farmer reserve from the 1981/82 crop.

Government costs range from $304 million to $1.3 billion. A substantial amount of the high-side government risk is associated with defaulted grain and deficiency payments.

Case B (Table 1) is a modification of Case A. Farmer participation is estimated at 25 percent but of the approximately 2 billion bushels eligible for the reserve program, about 600 million bushels or 30 percent moves in this direction. Market price increases to the breakeven level yielding about 22 billion in gross revenues and 464 million in government expenditures. But the major problem with this outcome is the level of farmer-held reserve of 1.75 billion bushels.

Table 1. Corn -- Reduced Acreage Program Scenarios for 1982/83

			---------- 1982/83 Crop Year ----------							
		1981/82	*****Case A*****			Case B	Case C	*****Case D*****		
			------------------- Weather							
Variable	Units	Crop Year	Poor	Normal	Good	Normal	Normal	Poor	Normal	Good
Acres Planted	mil. ac.	84.3	82.9	82.9	82.9	82.9	81.5	79.6	79.6	79.6
Yield/Harv.	bu. ac.	109.9	99	104	108.8	104	104	99	104	109
Participation	%	--	25	25	25	25	40	60	60	60
Reserves										
Farmer Held	mil. bu.	1150	1150	1250	1450	1750	1350	675	975	1150
CCC	mil. bu.	300	300	300	550	300	300	300	300	325
Total	mil. bu.	1951	1835	1851	2145	2245	1903	1500	1676	1846
Farm Price	$/bu.	2.48	2.86	2.48	2.40	2.91	2.95	3.14	2.91	2.55
Loan Rate	$/bu.	2.48	2.55	2.55	2.55	2.55	2.55	2.55	2.55	2.55
Release Price	$/bu.	(2.94-3.15)	-----(3.15-3.25)-----			(3.15-3.25)	(3.15-3.25)	-----(3.15-3.25)-----		
Gross Revenues	mil. $	20400	20673	18838	19202	22032	21913	21939	21372	20360
Payments										
Storage	mil. $	304	304	331	384	464	358	242	281	298
Deficiency	mil. $	--	--	267	273	--	--	--	--	681
Diversion	mil. $	--	--	--	--	--	--	464	464	464
CCC Purchase	mil. $	149	--	--	637	--	--	--	--	191
Govt. Cost	mil. $	453	304	598	1295	464	358	706	745	1634

Case A:	Appendix A, Low Participation and Limited Reserve Activity
Case B:	Appendix B, Low Participation and Strong Reserve Activity
Case C:	Appendix C, High Participation and Strong Reserve Activity
Case D:	Appendix D, Reduced Acreage Program plus 10¢ Diversion Payment

Table 2

Mar 1982	CORN BALANCE SHEET				
VARIABLE/YEAR	79/80	80/81	81/82	82/83	83/84
PLANTED	81.4	84.1	84.3	83	80
HARVESTED	72.4	73.1	74.62	73	70
YIELD	109.7	90.94	109.9	104	105.5
SUPPLY					
BEGINNING STOCKS	1301	1617	1034	1951	2264
PRODUCTION	7942	6648	8201	7592	7385
IMPORTS	1	1	1	1	1
TOTAL SUPPLY	9244	8266	9236	9544	9650
DISAPPEARANCE					
FEED	4519	4142	4250	4150	4300
FOOD AND SEED	653	690	705	730	755
GASOHOL	22	45	80	100	130
TOTAL DOMESTIC	5194	4877	5035	4980	5185
EXPORTS	2433	2355	2250	2300	2550
TOTAL DISAPPERANCE	7627	7232	7285	7280	7735
ENDING STOCKS	1617	1034	1951	2264	1915
FARMER HELD RSRVS	636	185	1150	1750	1500
CCC	256	238	300	300	250
"FREE STOCKS"	725	611	501	214	165
ANNUAL AVG PRICE	2.52	3.11	2.48	2.93	2.95
LOAN PRICE	2.10	2.25	2.40	2.55	2.65
TARGET PRICE	2.20	2.35	2.40	2.70	2.86
RELEASE PRICE	2.63	2.81	3.15	3.25	3.45
CALL PRICE	2.80	2.94	---	---	---

Case B: Low participation, strong reserve entry in 1982/83 and RAP in 1983/84

Table 3

MAR 82 CORN BALANCE SHEET

VARIABLE/YEAR	79/80	80/81	81/82	82/83	83/84
PLANTED	81.4	84.1	84.3	81.6	80
HARVESTED	72.4	73.1	74.62	71.6	70
YIELD	109.7	90.94	109.9	104	105.5
SUPPLY					
BEGINNING STOCKS	1301	1617	1034	1951	1918
PRODUCTION	7942	6648	8201	7446	7385
IMPORTS	1	1	1	1	1
TOTAL SUPPLY	9244	8266	9236	9398	9304
DISAPPEARANCE					
FEED	4519	4142	4250	4200	4300
FOOD AND SEED	653	690	705	730	755
GASOHOL	22	45	80	100	130
TOTAL DOMESTIC	5194	4877	5035	5030	5185
EXPORTS	2433	2355	2250	2450	2550
TOTAL DISAPPERANCE	7627	7232	7285	7480	7735
ENDING STOCKS	1617	1034	1951	1918	1569
FARMER HELD RSRVS	636	185	1150	1350	1075
CCC	256	238	300	300	300
"FREE STOCKS"	725	611	501	268	194
ANNUAL AVG PRICE	2.52	3.11	2.53	2.95	3.13
LOAN PRICE	2.10	2.25	2.40	2.55	2.65
TARGET PRICE	2.20	2.35	2.40	2.70	2.86
RELEASE PRICE	2.63	2.81	3.15	3.25	3.45
CALL PRICE	2.80	2.94	---	---	---

Case C: High participation, strong reserve entry in 1982/83 and RAP in 1983/84

Table 4

MAR 82	C O R N	B A L A N C E	S H E E T		
VARIABLE/YEAR	79/80	80/81	81/82	82/83	83/84
PLANTED	81.4	84.1	84.3	79	82
HARVESTED	72.4	73.1	74.62	69	72
YIELD	109.7	90.94	109.9	104	105.5
SUPPLY					
BEGINNING STOCKS	1301	1617	1034	1951	1648
PRODUCTION	7942	6648	8201	7176	7596
IMPORTS	1	1	1	1	1
TOTAL SUPPLY	9244	8266	9236	9128	9245
DISAPPEARANCE					
FEED	4519	4142	4250	4200	4325
FOOD AND SEED	653	690	705	730	755
GASOHOL	22	45	80	100	130
TOTAL DOMESTIC	5194	4877	5035	5030	5210
EXPORTS	2433	2355	2250	2450	2550
TOTAL DISAPPERANCE	7627	7232	7285	7480	7760
ENDING STOCKS	1617	1034	1951	1648	1485
FARMER HELD RSRVS	636	185	1150	975	875
CCC	256	238	300	300	300
"FREE STOCKS"	725	611	501	373	310
ANNUAL AVG PRICE	2.52	3.11	2.61	2.92	2.99
LOAN PRICE	2.10	2.25	2.40	2.55	2.65
TARGET PRICE	2.20	2.35	2.40	2.70	2.86
RELEASE PRICE	2.63	2.81	3.15	3.25	3.45
CALL PRICE	2.80	2.94	---	---	---

Case D: Reduced Acreage Program, plus paid diversion in 1982/83 and RAP in 1983/84

Case C (Table 1) is a modification that imposes 40 percent participation in both the wheat and corn sectors simultaneously. This level of participation will result in less acres planted to around 81.5 million acres. This reduction does take some pressure off the industry from the supply side, but strong reserve utilization will generate prices high enough to restrict utilization, especially in the domestic livestock market. Some increase in farmer-held reserves will be necessary to produce these results.

Case D (Table 1) represents two basic modifications of the current RAP. First, a 10 cent deficiency payment is offered to producers and, second, the reserve entry price is lowered from $2.90 to $2.70. This should stimulate enough participation to bring acreage down to the 80 million acre level (79.6) which is necessary to begin to bring the total industry back into balance around the price objectives defined in the program, i.e., operation within the price band, loan to release a large percentage of the time.

This estimate of 60 percent participation is likely high but has been used to examine the possible up-side exposure of government treasury outlays.

The advantage of this option over the first three is that farmer-held reserves could potentially be worked down. Only in the event that the crop was above normal would reserves increase. A below normal or normal crop would be sufficient to produce prices that allowed some of the reserve grain to move back on the market.

The pay-off by treasury is greater, but this expense reduces the exposure in future years. The added expense comes primarily from the up front diversion payment of $464 million.

Tables 2 and 3 give some indication of acreage necessary to realign the industry in 1983/84 if high reserves occur from the 1982/83 crop. It will be necessary to bring acrege down to the 80 million acre level. This will most likely occur only if a diversion payment is offered. Therefore, unless the summer of 1982 is a very poor production year, these treasury outlays will only be delayed and the farm sector will suffer the consequences of market price pressure from high reserve levels.

Table 4 implies that a reduced acreage program will be necessary in

1983/84 if 79 million acres were planted in 1982/83 and therefore continue to pull farmer-held reserves down.

An important implication of this set of scenarios presented in Table 1 is that the RAP as defined has the potential of building rather than reducing farmer-held reserves. The only long-run solution to this problem is market prices at or near trigger release prices to work off the stocks. Unless the weather God permits, this will require substantial government expenditures for maintaining future reserves and will eventually require stronger incentives to remove land rather than utilize the reserve to provide market price strength.

Alternative Scenarios for the Wheat Sector

Results from similar scenarios for the wheat sector are presented in Table 5. Implications for 1983/84 are given in Tables 6, 7, and 8. Reserve levels are also an apparent problem; current estimates imply a total carryover of around 1.164 billion bushels with 545 million in the farmer reserve and about 185 million in CCC for the 1981/82 crop.

Case A (Table 5) implies 25 percent participation in the RAP in conjunction with 25 percent in the corn program. This level of participation will result in about 86 million planted acres and is currently the most likely outcome. Since the 1982/83 level of exports is expected to be below the rather high 1981/82 level, it is very likely that reserves will be accumulated under the three different weather scenarios.

Prices are estimated to be at or near the loan for the normal and above normal yield levels. Storage and deficiency payments are the major components of government cost except for 621 million in CCC purchases in the event of a good crop.

Government expenditures are estimated to range between 517 and 1156 million.

Case B modifies the first case only to the extent that reserve participation is strong. Table 7, Appendix A, implies that about 20 million wheat acres would be in the program. This scenario implies that an additional 430 million bushels would be necessary to yield breakeven prices of $4.01 in the market. If yields on

Table 5. Wheat -- Reduced Acreage Program Scenarios for 1982/83

			---------- 1982/83 Crop Year ----------							
		1981/82 Crop Year	*****Case A*****			Case B	Case C	*****Case D*****		
			------------------ Weather ------------------							
Variable	Units		Poor	Normal	Good	Normal	Normal	Poor	Normal	Good
Acres Planted	mil. ac.	88.9	86	86	86	86	83	81	81	81
Yield/Harv.	bu. ac.	34.5	32.4	34.4	36.4	34.4	34.4	32	34	36.4
Participation	%	--	25	25	25	25	40	55	55	55
Reserves										
Farmer Held	mil. bu.	545	675	675	675	975	700	545	545	545
CCC	mil. bu.	185	235	235	360	235	185	185	185	185
Total	mil. bu.	1164	1173	1214	1305	1464	1238	1033	1100	1195
Farm Price	$/bu.	3.78	3.82	3.52	3.44	4.01	3.99	4.19	3.94	3.60
Loan Rate	$/bu.	3.20	3.55	3.55	3.55	3.55	3.55	3.55	3.55	3.55
Release Price	$/bu.	(4.20-4.65)	-----(4.20-4.65)-----			(4.20-4.65)	(4.20-4.65)	-----(4.20-4.65)-----		
Gross Revenues	mil. $	10586	9532	9564	9886	10443	10133	10118	9682	10600
Payments										
Storage	mil. $	144	179	179	179	258	186	144	144	144
Deficiency	mil. $	360	160	355	355	28	68	--	171	698
Diversion	mil. $	--	--	--	--	--	--	599	599	599
CCC Purchase	mil. $	-54	178	178	621	178	--	--	--	--
Govt. Cost	mil. $	451	517	712	1156	464	254	743	914	1441

Case A:	Appendix A, Low Participation and Limited Reserve Activity
Case B:	Appendix B, Low Participation and Strong Reserve Activity
Case C:	Appendix C, High Participation and Strong Reserve Activity
Case D:	Appendix D, Reduced Acreage Program plus 10¢ Diversion Payment

Table 6

VARIABLE/YEAR	79/80	80/81	81/82	82/83	83/84
W H E A T B A L A N C E S H E E T					
PLANTED	71.4	80.4	88.9	86	81.5
HARVESTED	62.5	70.9	80.9	76	72
YIELD	34.2	33.4	34.5	34.4	34.8
SUPPLY					
BEGINNING STOCKS	924	902	988	1164	1480
PRODUCTION	2134	2370	2791	2614	2488
IMPORTS	2	2	2	2	2
TOTAL SUPPLY	3060	3274	3781	3780	3971
DISAPPEARANCE					
FEED	86	48	135	50	100
FOOD	596	614	620	640	660
INDUSTRY,SEED	101	114	112	110	100
TOTAL DOMESTIC	783	776	867	800	860
EXPORTS	1375	1510	1750	1500	1640
TOTAL DISAPPERANCE	2158	2286	2617	2300	2500
ENDING STOCKS	902	988	1164	1480	1471
FARMER HELD RSRVS	250	360	545	975	800
CCC	200	196	185	235	335
"FREE STOCKS"	452	432	434	270	336
ANNUAL AVG PRICE	3.78	3.91	3.78	3.98	3.99
LOAN PRICE	2.50	3.00	3.20	3.55	3.60
TARGET PRICE	3.40	3.60	3.81	4.05	4.29
RELEASE PRICE	3.75	4.20	4.65	4.65	4.90
CALL PRICE	4.63	5.25	---	---	---

Case B: Low participation, strong reserve entry in 1982/83 and RAP in 1983/84

Table 7

WHEAT BALANCE SHEET

VARIABLE/YEAR	79/80	80/81	81/82	82/83	83/84
PLANTED	71.4	80.4	88.9	83.7	80
HARVESTED	62.5	70.9	80.9	73.7	70
YIELD	34.2	33.4	34.5	34.4	34.8
SUPPLY					
BEGINNING STOCKS	924	902	988	1164	1251
PRODUCTION	2134	2370	2791	2535	2436
IMPORTS	2	2	2	2	2
TOTAL SUPPLY	3060	3274	3781	3701	3689
DISAPPEARANCE					
FEED	86	48	135	100	100
FOOD	596	614	620	640	660
INDUSTRY,SEED	101	114	112	110	100
TOTAL DOMESTIC	783	776	867	850	860
EXPORTS	1375	1510	1750	1600	1640
TOTAL DISAPPERANCE	2158	2286	2617	2450	2500
ENDING STOCKS	902	988	1164	1251	1189
FARMER HELD RSRVS	250	360	545	700	600
CCC	200	196	185	185	185
"FREE STOCKS"	452	432	434	366	404
ANNUAL AVG PRICE	3.78	3.91	3.85	3.99	3.98
LOAN PRICE	2.50	3.00	3.20	3.55	3.60
TARGET PRICE	3.40	3.60	3.81	4.05	4.29
RELEASE PRICE	3.75	4.20	4.65	4.65	4.90
CALL PRICE	4.63	5.25	---	---	---

Case C: High participation, strong reserve entry in 1982/83 and RAP in 1983/84

Table 8

WHEAT BALANCE SHEET

VARIABLE/YEAR	79/80	80/81	81/82	82/83	83/84
PLANTED	71.4	80.4	88.9	80	81.5
HARVESTED	62.5	70.9	80.9	70	72
YIELD	34.2	33.4	34.5	34.4	34.8
SUPPLY					
BEGINNING STOCKS	924	902	988	1164	1094
PRODUCTION	2134	2370	2791	2408	2488
IMPORTS	2	2	2	2	2
TOTAL SUPPLY	3060	3274	3781	3574	3584
DISAPPEARANCE					
FEED	86	48	135	130	100
FOOD	596	614	620	640	660
INDUSTRY,SEED	101	114	112	110	100
TOTAL DOMESTIC	783	776	867	880	860
EXPORTS	1375	1510	1750	1600	1640
TOTAL DISAPPERANCE	2158	2286	2617	2480	2500
ENDING STOCKS	902	988	1164	1094	1084
FARMER HELD RSRVS	250	360	545	545	545
CCC	200	196	185	185	185
"FREE STOCKS"	452	432	434	364	354
ANNUAL AVG PRICE	3.78	3.91	3.98	3.95	4.07
LOAN PRICE	2.50	3.00	3.20	3.55	3.60
TARGET PRICE	3.40	3.60	3.81	4.05	4.29
RELEASE PRICE	3.75	4.20	4.65	4.65	4.90
CALL PRICE	4.63	5.25	---	---	---

Case D: Reduced Acreage Program, plus paid diversion in 1982/83 and RAP in 1983/84

these 20 million acres were at the expected national average, this would imply that 62.5 percent of all eligible wheat placed in the reserve.

While the economic incentive exists to place wheat in the reserve, it is highly unlikely that this percentage would in fact move in this direction.

Case C is a modification of Case A where participation is increased to 40 percent and reserve activity is strong. This case also increases reserve as the major activity for strengthening prices since 83 million acres with lower exports would result in larger total carryovers.

Case D reflects the paid diversion option. This strategy results in 55 percent participation, reduces acreage to 81 million, and sustains farmer-held reserves. But total reserves are decreased.

This program is more expensive for the government, at least in the near term, compared to Case A. But the differential is about $200 million that must be weighed against the possibility of carrying large reserves into 1983/84 with corresponding consequences.

Market price and corresponding gross revenues are stronger under this scenario, ranging between $3.14 to $2.55. Thus, more price strength is possible under the paid diversion scheme than the RAP with low reserve activity.

Implications for 1983/84 are given in Tables 6, 7, and 8. Each table implies that a very strong RAP will be necessary to realign the industry if a normal to above normal crop is produced in 1982/83.

Alternative Scenarios for the Soybean Sector

The interaction of the soybean sector is indicated in Table 9 for each of the corresponding cases considered for corn and wheat.

Case A implies about two chances out of three that market prices will be below the 1981/82 level with acreage around 70 million.

Case B implies about 38 cents in price strength if corn and wheat prices move up to the breakeven levels of $2.90 and $4.00, respectively.

Case C implies prices at the 1981/82 level if participation is 40 percent in both the wheat and corn sector and reserve participation is strong.

Table 9. Soybeans -- Interaction from 1982/83 Reduced Acreage Program

			---------- 1982/83 Crop Year ----------								
		1981/82	*****Case A*****			Case B	Case C	*****Case D*****		
		Crop	-------------------- Weather --------------------							
Variable	Units	Year	Poor	Normal	Good	Normal	Normal	Poor	Normal	Good
Acres Planted	mil. ac.	68.1	70	70	70	70	70	70	70	70
Yield/Harv.	bu. ac.	30.4	28.6	30.8	33	30.8	30.8	28.6	30.8	32.8
Farm Price	$/bu.	6.25	7.07	6.00	5.26	6.38	6.25	7.20	6.49	5.60
Loan Rate	$/bu.	5.02	5.02	5.02	5.02	5.02	5.02	5.02	5.02	5.02
Gross Revenues	mil. $	12688	13952	12751	11977	13559	13282	14208	13793	12674

Case A:	Appendix A, Low Participation and Limited Reserve Activity
Case B:	Appendix B, Low Participation and Strong Reserve Activity
Case C:	Appendix C, High Participation and Strong Reserve Activity
Case D:	Appendix D, Reduced Acreage Program plus 10¢ Diversion Payment

Table 10

SOYBEAN BALANCE SHEET

VARIABLE/YEAR	79/80	80/81	81/82	82/83	83/84
PLANTED	71.6	70.1	68.1	70	70
HARVESTED	70.6	67.9	66.8	69	69
YIELD	32.12	26.39	30.39	30.8	31.1
SUPPLY					
BEGINNING STOCKS	174	359	318	375	410
PRODUCTION	2268	1792	2030	2125	2146
IMPORTS	0	0	0	0	0
TOTAL SUPPLY	2442	2151	2348	2500	2556
DISAPPEARANCE					
CRUSH	1123	1020	1060	1100	1150
SEED,IND,RESIDUAL	85	89	88	90	90
TOTAL DOMESTIC	1208	1109	1148	1190	1240
EXPORTS	875	724	825	900	915
TOTAL DISAPPERANCE	2083	1833	1973	2090	2155
ENDING STOCKS	359	318	375	410	401
ANNUAL AVG PRICE	6.28	7.57	6.26	6.41	6.36
LOAN PRICE	4.50	5.02	5.02	5.02	5.70
BEAN/CORN RATIO	2.49	2.43	2.52	2.19	2.16

LIVESTOCK INFORMATION (IN CHANGE IN % FR

VARIABLE/YEAR	79/80	80/81	81/82	82/83	83/84
LIVESTOCK NUMBERS	1.5	-0.70	-0.75	2.30	1.50
LIVESTOCK PRICES	10	9.70	8.00	8.00	10.00

Case B: Low participation, strong reserve entry in 1982/83 and RAP in 1983/84

Table 11

SOYBEAN BALANCE SHEET

VARIABLE/YEAR	79/80	80/81	81/82	82/83	83/84
PLANTED	71.6	70.1	68.1	70	68
HARVESTED	70.6	67.9	66.8	69	67
YIELD	32.12	26.39	30.39	30.8	31.1
SUPPLY					
BEGINNING STOCKS	174	359	318	375	435
PRODUCTION	2268	1792	2030	2125	2084
IMPORTS	0	0	0	0	0
TOTAL SUPPLY	2442	2151	2348	2500	2519
DISAPPEARANCE					
CRUSH	1123	1020	1060	1100	1130
SEED, IND, RESIDUAL	85	89	88	90	90
TOTAL DOMESTIC	1208	1109	1148	1190	1220
EXPORTS	875	724	825	875	915
TOTAL DISAPPERANCE	2083	1833	1973	2065	2135
ENDING STOCKS	359	318	375	435	384
ANNUAL AVG PRICE	6.28	7.57	6.25	6.25	6.72
LOAN PRICE	4.50	5.02	5.02	5.02	5.70
BEAN/CORN RATIO	2.49	2.43	2.47	2.12	2.14

LIVESTOCK INFORMATION (CHANGE IN %)

VARIABLE/YEAR	79/80	80/81	81/82	82/83	83/84
LIVESTOCK NUMBERS	1.5	-0.70	-0.75	2.30	1.50
LIVESTOCK PRICES	10	9.70	8.00	8.00	10.00

Case C: High participation, strong reserve entry in 1982/83 and RAP in 1983/84

Table 12

SOYBEAN BALANCE SHEET

VARIABLE/YEAR	79/80	80/81	81/82	82/83	83/84
PLANTED	71.6	70.1	68.1	70	68
HARVESTED	70.6	67.9	66.8	69	67
YIELD	32.12	26.39	30.39	30.8	31.1
SUPPLY					
BEGINNING STOCKS	174	359	318	375	435
PRODUCTION	2268	1792	2030	2125	2084
IMPORTS	0	0	0	0	0
TOTAL SUPPLY	2442	2151	2348	2500	2519
DISAPPEARANCE					
CRUSH	1123	1020	1060	1100	1130
SEED, IND, RESIDUAL	85	89	88	90	90
TOTAL DOMESTIC	1208	1109	1148	1190	1220
EXPORTS	875	724	825	875	915
TOTAL DISAPPERANCE	2083	1833	1973	2065	2135
ENDING STOCKS	359	318	375	435	384
ANNUAL AVG PRICE	6.28	7.57	6.25	6.20	6.55
LOAN PRICE	4.50	5.02	5.02	5.02	5.70
BEAN/CORN RATIO	2.49	2.43	2.40	2.13	2.19

Case D: Reduced Acreage Program, plus paid diversion in 1982/83 and RAP in 1983/84

Case D represents a higher price range for beans than Case A with prices between $5.60 to $7.20 as opposed to a range of $5.26 to $7.07.

Tables 10, 11, and 12 imply some pressure to continue on bean prices with the likelihood of reduced acreage in 1983/84.

Summary

The purpose of this investigation was to examine the most likely set of scenarios associated with the 1982/83 Reduced Acreage Program. One particular conclusion is evident across the entire set analyzed. The current RAP has the potential of increasing reserves in the coming crop year unless a very poor crop is experienced this summer.

Low participation in the program could lead to prices near the loan and increases in reserves. Government expenditures would be high due to storage payments, deficiency payments, and CCC purchases. Low participation with high reserve activity results in breakeven prices for corn and wheat, but this occurs only because grain is removed from the market, a situation that must be dealt with in later years. High participation has the potential of reducing acreage, however, the reduction will not likely be enough to prevent the accumulation of stocks.

Thus, the potential exists for a very large reserve situation to become larger. A good to normal crop will require substantial reserve activity to boost market prices. This is apparently the only out for the grain farmer in 1982/83. But this option, while desinged to relieve the near-term price pressure, simply does not move the industry toward a balanced situation over the longer term.

If participation is low and/or reserve activity is low, large reserves will be carried into the next crop under the normal to good scenarios. Thus, a bottom-line for program management becomes the issue of very large reserves that cannot be reduced until release prices are met. This implies that a correction strategy for 1983/84 must be a very strong reduced acreage program that does not contain a stimulus for reserve building activity. It is very likely that this corrective action will be substantially more expensive later than appropriate adjustments taken in the 1982/83 crop.

Our conclusion is that the wrong management lever has been pulled. An option that concentrates on acreage reduction as a primary incentive must be used in years of high reserves. This strategy must also contain limited incentives to build reserves except to the point of minimum loan support. In this manner, participants are protected, nonparticipants receive on average the loan, and the market place becomes the focal point for allocation of excesses. The acreage reduction must be strong enough to allow for the possibility of reducing farmer reserves.

A point that is critical in a managed reserve program is the direction the industry is driven across years. The forward price objective for any strategy should be the center-line price between the loan and the release price. This allows an equal chance of both low-side and high-side prices. But if the management strategy is timid with regard to acreage reduction, then the acreage removed will likely produce prices near the loan as most likely. In this case, there are two chances out of three of remaining at or near the loan and only one in three of being above the loan. Since nature or weather is a random type occurrence, the latter strategy will tend to build reserves over the longer term. The forward price objective and reserve objectives should be the focal point for RAP's in the future.

APPENDIX A

REDUCED ACREAGE PROGRAM

- 10% Corn
- 15% Wheat
- Low Participation
- Limited Use of Farmer-Held Reserve

Table 1 (Normal Yield)

CORN BALANCE SHEET

VARIABLE/YEAR	79/80	80/81	81/82	82/83
BASE ACREAGE	82	85	85	85
PLANTED ACREAGE	81.4	84.1	84.3	82.88
HARVESTED ACREAGE	72.4	73.1	74.62	72.88
YIELD	109.7	90.94	109.9	104
SUPPLY				
BEGINNING STOCKS	1301	1617	1034	1951
PRODUCTION	7942	6648	8201	7579
IMPORTS	1	1	1	1
TOTAL SUPPLY	9244	8266	9236	9531
DISAPPEARANCE				
FEED	4519	4142	4250	4400
FOOD AND SEED	653	690	705	730
GASOHOL	22	45	80	100
TOTAL DOMESTIC	5194	4877	5035	5230
EXPORTS	2433	2355	2250	2450
TOTAL DISAPPERANCE	7627	7232	7285	7680
ENDING STOCKS	1617	1034	1951	1851
FARMER HELD RSRVS	636	185	1150	1250
CCC	256	238	300	300
"FREE STOCKS"	725	611	501	301
ANNUAL AVG FARM PRICE	2.52	3.11	2.48	2.48
LOAN PRICE	2.10	2.25	2.40	2.55
TARGET PRICE	2.20	2.35	2.40	2.70
RELEASE PRICE	2.63	2.81	3.15	3.25
RESERVE ENTRY PRICE	2.20	2.40	2.55	2.90
CALL PRICE	2.80	2.94	---	---
DIVERSION PAYMENT	0.00	0.00	0.00	0.00
SETASIDE REQUIREMENT (%)		0	0	10
% OF FARMERS PARTICIPATING		0	0	25
PARTICIPATING ACREAGE		0.00	0.00	21.25
SETASIDE ACREAGE		0.00	0.00	2.13
STORAGE PAYMENT		108.78	304.75	331.25
DEFICENCY PAYMENT RATE		0.00	0.00	0.15
DEFICENCY PAYMENT		0.00	0.00	266.79
RESERVE LOAN REQUIREMENT		407.00	2904.75	3222.50
CCC PURCHASES		-59.54	148.80	0.00
FARM VALUE OF PRODUCTION		20674.39	20337.83	18795.92
CHANGE IN RESERVE VALUE		-1402.61	2393.20	248.00
CHANGE IN CCC VALUE		0.00	153.76	0.00
CASH FLOW FROM RESERVES		-1206.88	2460.75	290.00
CASH FLOW FROM CCC		0.00	148.80	0.00
FARM GROSS SALES,LOANS		20870.12	20400.42	18837.92
FARM GROSS SALES,LOANS&G.P.		20870.12	20400.42	18838.07
GOVERNMENT COST		49.25	453.55	598.04

Table 2 (High Yield)

CORN BALANCE SHEET

VARIABLE/YEAR	79/80	80/81	81/82	82/83
BASE ACREAGE	82	85	85	85
PLANTED ACREAGE	81.4	84.1	84.3	82.82
HARVESTED ACREAGE	72.4	73.1	74.62	72.82
YIELD	109.7	90.94	109.9	108.8
SUPPLY				
BEGINNING STOCKS	1301	1617	1034	1951
PRODUCTION	7942	6648	8201	7923
IMPORTS	1	1	1	1
TOTAL SUPPLY	9244	8266	9236	9875
DISAPPEARANCE				
FEED	4519	4142	4250	4400
FOOD AND SEED	653	690	705	730
GASOHOL	22	45	80	100
TOTAL DOMESTIC	5194	4877	5035	5230
EXPORTS	2433	2355	2250	2500
TOTAL DISAPPERANCE	7627	7232	7285	7730
ENDING STOCKS	1617	1034	1951	2145
FARMER HELD RSRVS	636	185	1150	1450
CCC	256	238	300	550
"FREE STOCKS"	725	611	501	145
ANNUAL AVG FARM PRICE	2.52	3.11	2.42	2.40
LOAN PRICE	2.10	2.25	2.40	2.55
TARGET PRICE	2.20	2.35	2.40	2.70
RELEASE PRICE	2.63	2.81	3.15	3.25
RESERVE ENTRY PRICE	2.40	2.40	2.55	2.90
CALL PRICE	2.80	2.94	---	---
DIVERSION PAYMENT	0.00	0.00	0.00	0.00
SETASIDE REQUIREMENT (%)		0	0	10
% OF FARMERS PARTICIPATING		0	0	25
PARTICIPATING ACREAGE		0.00	0.00	21.79
SETASIDE ACREAGE		0.00	0.00	2.18
STORAGE PAYMENT		108.78	304.75	384.25
DEFICENCY PAYMENT RATE		0.00	0.00	0.15
DEFICENCY PAYMENT		0.00	0.00	273.63
RESERVE LOAN REQUIREMENT		444.00	2904.75	3802.50
CCC PURCHASES		-59.54	148.80	637.50
FARM VALUE OF PRODUCTION		20674.39	19845.79	19014.89
CHANGE IN RESERVE VALUE		-1402.61	2335.30	720.00
CHANGE IN CCC VALUE		0.00	150.04	600.00
CASH FLOW FROM RESERVES		-1206.88	2460.75	870.00
CASH FLOW FROM CCC		0.00	148.80	637.50
FARM GROSS SALES,LOANS		20870.12	19970.00	19202.39
FARM GROSS SALES,LOANS&G.P.		20870.12	19970.00	19202.54
GOVERNMENT COST		49.25	453.55	1295.38

Table 3

(Low Yield)

CORN BALANCE SHEET

VARIABLE/YEAR	79/80	80/81	81/82	82/83
BASE ACREAGE	82	85	85	85
PLANTED ACREAGE	81.4	84.1	84.3	82.88
HARVESTED ACREAGE	72.4	73.1	74.62	72.88
YIELD	109.7	90.94	109.9	99
SUPPLY				
BEGINNING STOCKS	1301	1617	1034	1951
PRODUCTION	7942	6648	8201	7228
IMPORTS	1	1	1	1
TOTAL SUPPLY	9244	8266	9236	9180
DISAPPEARANCE				
FEED	4519	4142	4250	4250
FOOD AND SEED	653	690	705	720
GASOHOL	22	45	80	75
TOTAL DOMESTIC	5194	4877	5035	5045
EXPORTS	2433	2355	2250	2300
TOTAL DISAPPERANCE	7627	7232	7285	7345
ENDING STOCKS	1617	1034	1951	1835
FARMER HELD RSRVS	636	185	1150	1150
CCC	256	238	300	300
"FREE STOCKS"	725	611	501	385
ANNUAL AVG FARM PRICE	2.52	3.11	2.58	2.86
LOAN PRICE	2.10	2.25	2.40	2.55
TARGET PRICE	2.20	2.35	2.40	2.70
RELEASE PRICE	2.63	2.81	3.15	3.25
RESERVE ENTRY PRICE	2.20	2.40	2.55	2.90
CALL PRICE	2.80	2.94	---	---
DIVERSION PAYMENT	0.00	0.00	0.00	0.00
SETASIDE REQUIREMENT (%)		0	0	10
% OF FARMERS PARTICIPATING		0	0	25
PARTICIPATING ACREAGE		0.00	0.00	21.25
SETASIDE ACREAGE		0.00	0.00	2.13
STORAGE PAYMENT		108.78	304.75	304.75
DEFICENCY PAYMENT RATE		0.00	0.00	0.00
DEFICENCY PAYMENT		0.00	0.00	0.00
RESERVE LOAN REQUIREMENT		407.00	2904.75	2932.50
CCC PURCHASES		-59.54	148.80	0.00
FARM VALUE OF PRODUCTION		20674.39	21157.90	20673.43
CHANGE IN RESERVE VALUE		-1402.61	2489.70	0.00
CHANGE IN CCC VALUE		0.00	159.96	0.00
CASH FLOW FROM RESERVES		-1206.88	2460.75	0.00
CASH FLOW FROM CCC		0.00	148.80	0.00
FARM GROSS SALES,LOANS		20870.12	21117.79	20673.43
FARM GROSS SALES,LOANS&G.P.		20870.12	21117.79	20673.43
GOVERNMENT COST		49.25	453.55	304.75

Table 4

(Normal Yield)

SOYBEAN BALANCE SHEET

VARIABLE/YEAR	79/80	80/81	81/82	82/83
PLANTED	71.6	70.1	68.1	70
HARVESTED	70.6	67.9	66.8	69
YIELD	32.12	26.39	30.39	30.8
SUPPLY				
BEGINNING STOCKS	174	359	320	378
PRODUCTION	2268	1792	2030	2125
IMPORTS	0	0	0	0
TOTAL SUPPLY	2442	2151	2350	2503
DISAPPEARANCE				
CRUSH	1123	1020	1060	1134
SEED, IND, RESIDUAL	85	87	87	90
TOTAL DOMESTIC	1208	1107	1147	1224
EXPORTS	875	724	825	875
TOTAL DISAPPERANCE	2083	1831	1972	2099
ENDING STOCKS	359	320	378	404
ANNUAL AVG PRICE	6.28	7.62	6.25	6.00
LOAN PRICE	4.50	5.02	5.02	5.02
FARM VALUE OF PRODUCTION	14240.98	13654.13	12687.83	12751.20
BEAN/CORN RATIO	2.49	2.45	2.52	2.42

LIVESTOCK INFORMATION (IN % CHNG)

VARIABLE/YEAR	79/80	80/81	81/82	82/83
LIVESTOCK NUMBERS	1.5	-0.70	-0.75	2.30
LIVESTOCK PRICES	10	9.70	8.00	8.00

Table 5

(High Yield)

SOYBEAN BALANCE SHEET

VARIABLE/YEAR	79/80	80/81	81/82	82/83
PLANTED	71.6	70.1	68.1	70
HARVESTED	70.6	67.9	66.8	69
YIELD	32.12	26.39	30.39	33
SUPPLY				
BEGINNING STOCKS	174	359	320	378
PRODUCTION	2268	1792	2030	2277
IMPORTS	0	0	0	0
TOTAL SUPPLY	2442	2151	2350	2655
DISAPPEARANCE				
CRUSH	1123	1020	1060	1139
SEED, IND, RESIDUAL	85	87	87	90
TOTAL DOMESTIC	1208	1107	1147	1229
EXPORTS	875	724	825	925
TOTAL DISAPPERANCE	2083	1831	1972	2154
ENDING STOCKS	359	320	378	501
ANNUAL AVG PRICE	6.28	7.62	6.25	5.26
LOAN PRICE	4.50	5.02	5.02	5.02
FARM VALUE OF PRODUCTION	14240.98	13654.13	12687.83	11977.02
BEAN/CORN RATIO	2.49	2.45	2.58	2.19

LIVESTOCK INFORMATION (IN % CHNG)

VARIABLE/YEAR	79/80	80/81	81/82	82/83
LIVESTOCK NUMBERS	1.5	-0.70	-0.75	2.30
LIVESTOCK PRICES	10	9.70	8.00	8.00

Table 6 (Low Yield)

SOYBEAN BALANCE SHEET

VARIABLE/YEAR	79/80	80/81	81/82	82/83
PLANTED	71.6	70.1	68.1	70
HARVESTED	70.6	67.9	66.8	69
YIELD	32.12	26.39	30.39	28.6
SUPPLY				
BEGINNING STOCKS	174	359	320	378
PRODUCTION	2268	1792	2030	1973
IMPORTS	0	0	0	0
TOTAL SUPPLY	2442	2151	2350	2351
DISAPPEARANCE				
CRUSH	1123	1020	1060	1120
SEED, IND, RESIDUAL	85	87	87	90
TOTAL DOMESTIC	1208	1107	1147	1210
EXPORTS	875	724	825	850
TOTAL DISAPPERANCE	2083	1831	1972	2060
ENDING STOCKS	359	320	378	291
ANNUAL AVG PRICE	6.28	7.62	6.30	7.07
LOAN PRICE	4.50	5.02	5.02	5.02
FARM VALUE OF PRODUCTION	14240.98	13654.13	12789.33	13951.94
BEAN/CORN RATIO	2.49	2.45	2.44	2.47

LIVESTOCK INFORMATION (IN % CHNG)

VARIABLE/YEAR	79/80	80/81	81/82	82/83
LIVESTOCK NUMBERS	1.5	-0.70	-0.75	2.30
LIVESTOCK PRICES	10	9.70	8.00	8.00

Table 7 (Normal Yield)

WHEAT BALANCE SHEET

VARIABLE/YEAR	79/80	80/81	81/82	82/83
BASE ACREAGE	82	82	89	89
PLANTED ACREAGE	71.4	80.4	88.8	86
HARVESTED ACREAGE	62.5	70.9	80.9	76
YIELD	34.2	33.4	34.5	34.4
SUPPLY				
BEGINNING STOCKS	924	902	988	1164
PRODUCTION	2134	2370	2791	2598
IMPORTS	2	2	2	2
TOTAL SUPPLY	3060	3274	3781	3764
DISAPPEARANCE				
FEED	86	48	135	200
FOOD	596	614	620	640
INDUSTRY, SEED	101	114	112	110
TOTAL DOMESTIC	783	776	867	950
EXPORTS	1375	1510	1750	1600
TOTAL DISAPPERANCE	2158	2286	2617	2550
ENDING STOCKS	902	988	1164	1214
FARMER HELD RSRVS	250	360	545	675
CCC	200	196	185	235
"FREE STOCKS"	452	432	434	304
ANNUAL AVG PRICE	3.78	3.91	3.78	3.52
LOAN PRICE	2.50	3.00	3.20	3.55
TARGET PRICE	3.40	3.60	3.81	4.05
RELEASE PRICE	3.75	4.20	4.65	4.65
RESERVE ENTRY PRICE	---	3.30	3.50	4.00
CALL PRICE	4.63	5.25	---	---
DIVERSION PAYMENT	0.00	0.00	0.00	0.00
SETASIDE REQUIREMENT (%)		0	0	15
% OF FARMERS PARTICIPATING		0	0	25
PARTICIPATING ACREAGE		0.00	0.00	23.12
SETASIDE ACREAGE		0.00	0.00	3.47
STORAGE PAYMENT		95.40	144.43	178.88
DEFICENCY PAYMENT RATE		0.00	0.03	0.50
DEFICENCY PAYMENT		0.00	360.00	355.29
RESERVE LOAN REQUIREMENT		363.00	1835.50	2427.50
CCC PURCHASES		-22.05	-53.71	177.50
FARM VALUE OF PRODUCTION		9266.70	10550.17	9146.08
CHANGE IN RESERVE VALUE		430.10	699.30	457.60
CHANGE IN CCC VALUE		0.00	0.00	176.00
CASH FLOW FROM RESERVES		363.00	647.50	520.00
CASH FLOW FROM CCC		0.00	0.00	176.00
FARM GROSS SALES, LOANS		9199.60	10498.37	9208.48
FARM GROSS SALES, LOANS&G.P.		9199.60	10586.28	9563.76
GOVERNMENT PAYMENT		73.35	458.88	712.16

Table 8 (High Yield)

WHEAT BALANCE SHEET

VARIABLE/YEAR	79/80	80/81	81/82	82/83
BASE ACREAGE	82	82	89	89
PLANTED ACREAGE	71.4	80.4	88.8	86
HARVESTED ACREAGE	62.5	70.9	80.9	76
YIELD	34.2	33.4	34.5	36.4
SUPPLY				
BEGINNING STOCKS	924	902	988	1164
PRODUCTION	2134	2370	2791	2749
IMPORTS	2	2	2	2
TOTAL SUPPLY	3060	3274	3781	3915
DISAPPEARANCE				
FEED	86	48	135	225
FOOD	596	614	620	645
INDUSTRY,SEED	101	114	112	115
TOTAL DOMESTIC	783	776	867	985
EXPORTS	1375	1510	1750	1625
TOTAL DISAPPERANCE	2158	2286	2617	2610
ENDING STOCKS	902	988	1164	1305
FARMER HELD RSRVS	250	360	545	675
CCC	200	196	185	360
"FREE STOCKS"	452	432	434	270
ANNUAL AVG PRICE	3.78	3.91	3.78	3.44
LOAN PRICE	2.50	3.00	3.20	3.55
TARGET PRICE	3.40	3.60	3.81	4.05
RELEASE PRICE	3.75	4.20	4.65	4.65
RESERVE ENTRY PRICE	---	3.30	3.50	4.00
CALL PRICE	4.63	5.25	---	---
DIVERSION PAYMENT	0.00	0.00	0.00	0.00
SETASIDE REQUIREMENT (%)		0	0	15
% OF FARMERS PARTICIPATING		0	0	25
PARTICIPATING ACREAGE		0.00	0.00	23.12
SETASIDE ACREAGE		0.00	0.00	3.47
STORAGE PAYMENT		95.40	144.43	178.88
DEFICENCY PAYMENT RATE		0.00	0.16	0.50
DEFICENCY PAYMENT		0.00	360.00	355.29
RESERVE LOAN REQUIREMENT		363.00	1835.50	2427.50
CCC PURCHASES		-22.05	-53.71	621.25
FARM VALUE OF PRODUCTION		9266.70	10550.17	9457.87
CHANGE IN RESERVE VALUE		430.10	699.30	447.20
CHANGE IN CCC VALUE		0.00	0.00	602.00
CASH FLOW FROM RESERVES		363.00	647.50	520.00
CASH FLOW FROM CCC		0.00	0.00	602.00
FARM GROSS SALES,LOANS		9199.60	10498.37	9530.67
FARM GROSS SALES,LOANS&G.P.		9199.60	10858.37	9885.96
GOVERNMENT PAYMENT		73.35	450.88	1155.91

Table 9

(Low Yield)

WHEAT BALANCE SHEET

VARIABLE/YEAR	79/80	80/81	81/82	82/83
BASE ACREAGE	82	82	89	89
PLANTED ACREAGE	71.4	80.4	88.8	86
HARVESTED ACREAGE	62.5	70.9	80.9	76
YIELD	34.2	33.4	34.5	32.4
SUPPLY				
BEGINNING STOCKS	924	902	988	1164
PRODUCTION	2134	2370	2791	2447
IMPORTS	2	2	2	2
TOTAL SUPPLY	3060	3274	3781	3613
DISAPPEARANCE				
FEED	86	48	135	150
FOOD	596	614	620	635
INDUSTRY,SEED	101	114	112	105
TOTAL DOMESTIC	783	776	867	890
EXPORTS	1375	1510	1750	1550
TOTAL DISAPPERANCE	2158	2286	2617	2440
ENDING STOCKS	902	988	1164	1173
FARMER HELD RSRVS	250	360	545	675
CCC	200	196	185	235
"FREE STOCKS"	452	432	434	263
ANNUAL AVG PRICE	3.78	3.91	3.78	3.82
LOAN PRICE	2.50	3.00	3.20	3.55
TARGET PRICE	3.40	3.60	3.81	4.05
RELEASE PRICE	3.75	4.20	4.65	4.65
RESERVE ENTRY PRICE	---	3.30	3.50	4.00
CALL PRICE	4.63	5.25	---	---
DIVERSION PAYMENT	0.00	0.00	0.00	0.00
SETASIDE REQUIREMENT (%)		0	0	15
% OF FARMERS PARTICIPATING		0	0	25
PARTICIPATING ACREAGE		0.00	0.00	23.12
SETASIDE ACREAGE		0.00	0.00	3.47
STORAGE PAYMENT		95.40	144.43	178.88
DEFICENCY PAYMENT RATE		0.00	0.03	0.23
DEFICENCY PAYMENT		0.00	87.91	160.46
RESERVE LOAN REQUIREMENT		363.00	1835.50	2427.50
CCC PURCHASES		-22.05	-53.71	177.50
FARM VALUE OF PRODUCTION		9266.70	10550.17	9348.50
CHANGE IN RESERVE VALUE		430.10	699.30	496.60
CHANGE IN CCC VALUE		0.00	0.00	191.00
CASH FLOW FROM RESERVES		363.00	647.50	520.00
CASH FLOW FROM CCC		0.00	0.00	191.00
FARM GROSS SALES,LOANS		9199.60	10498.37	9371.90
FARM GROSS SALES,LOANS&G.P.		9199.60	10586.28	9532.36
GOVERNMENT PAYMENT		73.35	178.66	517.06

APPENDIX B

REDUCED ACREAGE PROGRAM

- o 10% Corn
- o 15% Wheat
- o Low Participation
- o Strong Use of Farmer-Held Reserve

Table 1 (Normal Yield)

Corn 10% Setaside,No paid diversion,strong Reserve Entry

CORN BALANCE SHEET

VARIABLE/YEAR	79/80	80/81	81/82	82/83
BASE ACREAGE	82	85	85	85
PLANTED ACREAGE	81.4	84.1	84.3	83
HARVESTED ACREAGE	72.4	73.1	74.62	73
YIELD	109.7	90.94	109.9	104
SUPPLY				
BEGINNING STOCKS	1301	1617	1034	1951
PRODUCTION	7942	6648	8201	7573
IMPORTS	1	1	1	1
TOTAL SUPPLY	9244	8266	9236	9525
DISAPPEARANCE				
FEED	4519	4142	4250	4150
FOOD AND SEED	653	690	705	730
GASOHOL	22	45	80	100
TOTAL DOMESTIC	5194	4877	5035	4980
EXPORTS	2433	2355	2250	2300
TOTAL DISAPPERANCE	7627	7232	7285	7280
ENDING STOCKS	1617	1034	1951	2245
FARMER HELD RSRVS	636	185	1150	1750
CCC	256	238	300	300
"FREE STOCKS"	725	611	501	195
ANNUAL AVG FARM PRICE	2.52	3.11	2.48	2.91
LOAN PRICE	2.10	2.25	2.40	2.55
TARGET PRICE	2.20	2.35	2.40	2.70
RELEASE PRICE	2.63	2.81	3.15	3.40
RESERVE ENTRY PRICE	2.40	2.40	2.55	2.90
CALL PRICE	2.80	2.94	---	---
DIVERSION PAYMENT	0.00	0.00	0.00	0.00
SETASIDE REQUIREMENT (%)		0	0	10
% OF FARMERS PARTICIPATING		0	0	25
PARTICIPATING ACREAGE		0.00	0.00	21.79
SETASIDE ACREAGE		0.00	0.00	2.18
STORAGE PAYMENT		108.78	304.75	463.75
DEFICENCY PAYMENT RATE		0.00	0.00	0.00
DEFICENCY PAYMENT		0.00	0.00	0.00
RESERVE LOAN REQUIREMENT		444.00	2904.75	4672.50
CCC PURCHASES		-59.54	148.80	0.00
FARM VALUE OF PRODUCTION		20674.39	20337.83	22038.40
CHANGE IN RESERVE VALUE		-1402.61	2393.20	1746.00
CHANGE IN CCC VALUE		0.00	153.76	0.00
CASH FLOW FROM RESERVES		-1206.88	2460.75	1740.00
CASH FLOW FROM CCC		0.00	148.80	0.00
FARM GROSS SALES,LOANS		20870.12	20400.42	22032.40
FARM GROSS SALES,LOANS&G.P.		20870.12	20400.42	22032.4
GOVERNMENT COST		49.25	453.55	463.75

Table 2 (Normal Yield)

SOYBEAN BALANCE SHEET

VARIABLE/YEAR	79/80	80/81	81/82	82/83
PLANTED	71.6	70.1	68.1	70
HARVESTED	70.6	67.9	66.8	69
YIELD	32.12	26.39	30.39	30.8
SUPPLY				
BEGINNING STOCKS	174	359	320	358
PRODUCTION	2268	1792	2030	2125
IMPORTS	0	0	0	0
TOTAL SUPPLY	2442	2151	2350	2483
DISAPPEARANCE				
CRUSH	1123	1020	1080	1100
SEED, IND, RESIDUAL	85	87	87	90
TOTAL DOMESTIC	1208	1107	1167	1190
EXPORTS	875	724	825	900
TOTAL DISAPPERANCE	2083	1831	1992	2090
ENDING STOCKS	359	320	358	393
ANNUAL AVG PRICE	6.28	7.62	6.25	6.38
LOAN PRICE	4.50	5.02	5.02	5.02
FARM VALUE OF PRODUCTION	14240.98	13654.13	12687.83	13558.78
BEAN/CORN RATIO	2.49	2.45	2.52	2.19

LIVESTOCK INFORMATION (IN % CHNG)

VARIABLE/YEAR	79/80	80/81	81/82	82/83
LIVESTOCK NUMBERS	1.5	-0.70	-0.75	2.30
LIVESTOCK PRICES	10	9.70	8.00	8.00

Table 3 (Normal Yield)

Wheat 15%Setaside,No paid diversion,strong Reserve Entry

W H E A T   B A L A N C E   S H E E T

VARIABLE/YEAR	79/80	80/81	81/82	82/83
BASE ACREAGE	82	82	89	89
PLANTED ACREAGE	71.4	80.4	88.8	86
HARVESTED ACREAGE	62.5	70.9	80.9	76
YIELD	34.2	33.4	34.5	34.4
SUPPLY				
BEGINNING STOCKS	924	902	988	1164
PRODUCTION	2134	2370	2791	2598
IMPORTS	2	2	2	2
TOTAL SUPPLY	3060	3274	3781	3764
DISAPPEARANCE				
FEED	86	48	135	50
FOOD	596	614	620	640
INDUSTRY,SEED	101	114	112	110
TOTAL DOMESTIC	783	776	867	800
EXPORTS	1375	1510	1750	1500
TOTAL DISAPPERANCE	2158	2286	2617	2300
ENDING STOCKS	902	988	1164	1464
FARMER HELD RSRVS	250	360	545	975
CCC	200	196	185	235
"FREE STOCKS"	452	432	434	254
ANNUAL AVG PRICE	3.78	3.91	3.78	4.01
LOAN PRICE	2.50	3.00	3.20	3.55
TARGET PRICE	3.40	3.60	3.81	4.05
RELEASE PRICE	3.75	4.20	4.65	4.65
RESERVE ENTRY PRICE	---	3.30	3.50	4.00
CALL PRICE	4.63	5.25	---	---
DIVERSION PAYMENT	0.00	0.00	0.00	0.00
SETASIDE REQUIREMENT (%)		0	0	15
% OF FARMERS PARTICIPATING		0	0	25
PARTICIPATING ACREAGE		0.00	0.00	23.12
SETASIDE ACREAGE		0.00	0.00	3.47
STORAGE PAYMENT		95.40	144.43	258.38
DEFICENCY PAYMENT RATE		0.00	0.03	0.04
DEFICENCY PAYMENT		0.00	87.91	28.42
RESERVE LOAN REQUIREMENT		363.00	1835.50	3627.50
CCC PURCHASES		-22.05	-53.71	177.50
FARM VALUE OF PRODUCTION		9266.70	10550.17	10419.25
CHANGE IN RESERVE VALUE		430.10	699.30	1724.30
CHANGE IN CCC VALUE		0.00	0.00	200.50
CASH FLOW FROM RESERVES		363.00	647.50	1720.00
CASH FLOW FROM CCC		0.00	0.00	200.50
FARM GROSS SALES,LOANS		9199.60	10498.37	10414.95
FARM GROSS SALES,LOANS&G.P.		9199.60	10586.28	10443.37
GOVERNMENT PAYMENT		73.35	178.66	464.34

APPENDIX C

REDUCED ACREAGE PROGRAM

- 10% Corn
- 15% Wheat
- High Participation
- Strong Use of Farmer-Held Reserve

Table 1 (Normal Yield)

CORN BALANCE SHEET

VARIABLE/YEAR	79/80	80/81	81/82	82/83
BASE ACREAGE	82	85	85	85
PLANTED ACREAGE	81.4	84.1	84.3	81.46
HARVESTED ACREAGE	72.4	73.1	74.62	71.46
YIELD	109.7	90.94	109.9	104
SUPPLY				
BEGINNING STOCKS	1301	1617	1034	1951
PRODUCTION	7942	6648	8201	7432
IMPORTS	1	1	1	1
TOTAL SUPPLY	9244	8266	9236	9383
DISAPPEARANCE				
FEED	4519	4142	4250	4200
FOOD AND SEED	653	690	705	730
GASOHOL	22	45	80	100
TOTAL DOMESTIC	5194	4877	5035	5030
EXPORTS	2433	2355	2250	2450
TOTAL DISAPPERANCE	7627	7232	7285	7480
ENDING STOCKS	1617	1034	1951	1903
FARMER HELD RSRVS	636	185	1150	1350
CCC	256	238	300	300
"FREE STOCKS"	725	611	501	253
ANNUAL AVG FARM PRICE	2.52	3.11	2.53	2.95
LOAN PRICE	2.10	2.25	2.40	2.55
TARGET PRICE	2.20	2.35	2.40	2.70
RELEASE PRICE	2.63	2.81	3.15	3.25
RESERVE ENTRY PRICE	2.40	2.40	2.55	2.90
CALL PRICE	2.80	2.94	---	---
DIVERSION PAYMENT	0.00	0.00	0.00	0.00
SETASIDE REQUIREMENT (%)		0	0	10
% OF FARMERS PARTICIPATING		0	0	40
PARTICIPATING ACREAGE		0.00	0.00	35.42
SETASIDE ACREAGE		0.00	0.00	3.54
STORAGE PAYMENT		108.78	304.75	357.75
DEFICENCY PAYMENT RATE		0.00	0.00	0.00
DEFICENCY PAYMENT		0.00	0.00	0.00
RESERVE LOAN REQUIREMENT		444.00	2904.75	3512.50
CCC PURCHASES		-59.54	148.80	0.00
FARM VALUE OF PRODUCTION		20674.39	20747.87	21923.42
CHANGE IN RESERVE VALUE		-1402.61	2441.45	590.00
CHANGE IN CCC VALUE		0.00	156.86	0.00
CASH FLOW FROM RESERVES		-1206.88	2460.75	580.00
CASH FLOW FROM CCC		0.00	148.80	0.00
FARM GROSS SALES,LOANS		20870.12	20759.11	21913.42
FARM GROSS SALES,LOANS&G.P.		20870.12	20759.11	21913.42
GOVERNMENT COST		49.25	453.55	357.75

Table 2 (Normal Yield)

SOYBEAN BALANCE SHEET

VARIABLE/YEAR	79/80	80/81	81/82	82/83
PLANTED	71.6	70.1	68.1	70
HARVESTED	70.6	67.9	66.8	69
YIELD	32.12	26.39	30.39	30.8
SUPPLY				
BEGINNING STOCKS	174	359	320	378
PRODUCTION	2268	1792	2030	2125
IMPORTS	0	0	0	0
TOTAL SUPPLY	2442	2151	2350	2503
DISAPPEARANCE				
CRUSH	1123	1020	1060	1100
SEED,IND,RESIDUAL	85	87	87	90
TOTAL DOMESTIC	1208	1107	1147	1190
EXPORTS	875	724	825	875
TOTAL DISAPPERANCE	2083	1831	1972	2065
ENDING STOCKS	359	320	378	438
ANNUAL AVG PRICE	6.28	7.62	6.25	6.25
LOAN PRICE	4.50	5.02	5.02	5.02
FARM VALUE OF PRODUCTION	14240.98	13654.13	12687.83	13282.50
BEAN/CORN RATIO	2.49	2.45	2.47	2.12

LIVESTOCK INFORMATION (IN % CHNG)

VARIABLE/YEAR	79/80	80/81	81/82	82/83
LIVESTOCK NUMBERS	1.5	-0.70	-0.75	2.30
LIVESTOCK PRICES	10	9.70	8.00	8.00

Table 3

(Normal Yield)

W H E A T B A L A N C E S H E E T

VARIABLE/YEAR	79/80	80/81	81/82	82/83
BASE ACREAGE	82	82	89	89
PLANTED ACREAGE	71.4	80.4	88.8	83
HARVESTED ACREAGE	62.5	70.9	80.9	73
YIELD	34.2	33.4	34.5	34.4
SUPPLY				
BEGINNING STOCKS	924	902	988	1164
PRODUCTION	2134	2370	2791	2522
IMPORTS	2	2	2	2
TOTAL SUPPLY	3060	3274	3781	3688
DISAPPEARANCE				
FEED	86	48	135	100
FOOD	596	614	620	640
INDUSTRY,SEED	101	114	112	110
TOTAL DOMESTIC	783	776	867	850
EXPORTS	1375	1510	1750	1600
TOTAL DISAPPERANCE	2158	2286	2617	2450
ENDING STOCKS	902	988	1164	1238
FARMER HELD RSRVS	250	360	545	700
CCC	200	196	185	185
"FREE STOCKS"	452	432	434	353
ANNUAL AVG PRICE	3.78	3.91	3.85	3.99
LOAN PRICE	2.50	3.00	3.20	3.55
TARGET PRICE	3.40	3.60	3.81	4.05
RELEASE PRICE	3.75	4.20	4.65	4.65
RESERVE ENTRY PRICE	---	3.30	3.50	4.00
CALL PRICE	4.63	5.25	---	---
DIVERSION PAYMENT	0.00	0.00	0.00	0.00
SETASIDE REQUIREMENT (%)		0	0	15
% OF FARMERS PARTICIPATING		0	0	40
PARTICIPATING ACREAGE		0.00	0.00	37.87
SETASIDE ACREAGE		0.00	0.00	5.68
STORAGE PAYMENT		95.40	144.43	185.50
DEFICENCY PAYMENT RATE		0.00	0.16	0.06
DEFICENCY PAYMENT		0.00	350.00	67.95
RESERVE LOAN REQUIREMENT		363.00	1835.50	2527.50
CCC PURCHASES		-22.05	-53.71	0.00
FARM VALUE OF PRODUCTION		9266.70	10745.54	10063.49
CHANGE IN RESERVE VALUE		430.10	712.25	618.45
CHANGE IN CCC VALUE		0.00	0.00	0.00
CASH FLOW FROM RESERVES		363.00	647.50	620.00
CASH FLOW FROM CCC		0.00	0.00	0.00
FARM GROSS SALES,LOANS		9199.60	10680.79	10065.04
FARM GROSS SALES,LOANS&G.P.		9199.60	11030.79	10133.00
GOVERNMENT PAYMENT		73.35	440.88	253.51

APPENDIX D

REDUCED ACREAGE PROGRAM AND PAID DIVERSION

- 10% Corn RAP and 10¢ Diversion Payment
- 15% Wheat RAP and 40¢ Diversion Payment

Table 1 (Normal Yield)

CORN BALANCE SHEET

VARIABLE/YEAR	79/80	80/81	81/82	82/83
BASE ACREAGE	82	85	85	85
PLANTED ACREAGE	81.4	84.1	84.3	79.57
HARVESTED ACREAGE	72.4	73.1	74.62	69.57
YIELD	109.7	90.94	109.9	104
SUPPLY				
BEGINNING STOCKS	1301	1617	1034	1951
PRODUCTION	7942	6648	8201	7204
IMPORTS	1	1	1	1
TOTAL SUPPLY	9244	8266	9236	9156
DISAPPEARANCE				
FEED	4519	4142	4250	4200
FOOD AND SEED	653	690	705	730
GASOHOL	22	45	80	100
TOTAL DOMESTIC	5194	4877	5035	5030
EXPORTS	2433	2355	2250	2450
TOTAL DISAPPERANCE	7627	7232	7285	7480
ENDING STOCKS	1617	1034	1951	1676
FARMER HELD RSRVS	636	185	1150	975
CCC	256	238	300	300
"FREE STOCKS"	725	611	501	401
ANNUAL AVG FARM PRICE	2.52	3.11	2.48	2.91
LOAN PRICE	2.10	2.25	2.40	2.55
TARGET PRICE	2.20	2.35	2.40	2.70
RELEASE PRICE	2.63	2.81	3.15	3.25
RESERVE ENTRY PRICE	2.40	2.40	2.55	2.70
CALL PRICE	2.80	2.94	---	---
DIVERSION PAYMENT	0.00	0.00	0.00	0.10
TOTAL DIVERSION PAYMENT	0.00	0.00	0.00	463.88
SETASIDE REQUIREMENT (%)		0	0	10
% OF FARMERS PARTICIPATING		0	0	60
PARTICIPATING ACREAGE		0.00	0.00	54.26
SETASIDE ACREAGE		0.00	0.00	5.43
STORAGE PAYMENT		108.78	304.75	281.56
DEFICENCY PAYMENT RATE		0.00	0.00	0.00
DEFICENCY PAYMENT		0.00	0.00	0.00
RESERVE LOAN REQUIREMENT		444.00	2904.75	2486.25
CCC PURCHASES		-59.54	148.80	0.00
FARM VALUE OF PRODUCTION		20674.39	20337.83	20964.91
CHANGE IN RESERVE VALUE		-1402.61	2393.20	-509.25
CHANGE IN CCC VALUE		0.00	153.76	0.00
CASH FLOW FROM RESERVES		-1206.88	2460.75	-565.86
CASH FLOW FROM CCC		0.00	148.80	0.00
FARM GROSS SALES,LOANS		20870.12	20400.42	20908.30
FARM GROSS SALES,LOANS&G.P.		20870.12	20400.42	21372.18
GOVERNMENT COST		49.25	453.55	745.45

Table 2

(Good Yield)

CORN BALANCE SHEET

VARIABLE/YEAR	79/80	80/81	81/82	82/83
BASE ACREAGE	82	85	85	85
PLANTED ACREAGE	81.4	84.1	84.3	79.57
HARVESTED ACREAGE	72.4	73.1	74.62	69.57
YIELD	109.7	90.94	109.9	109
SUPPLY				
BEGINNING STOCKS	1301	1617	1034	1951
PRODUCTION	7942	6648	8201	7549
IMPORTS	1	1	1	1
TOTAL SUPPLY	9244	8266	9236	9501
DISAPPEARANCE				
FEED	4519	4142	4250	4300
FOOD AND SEED	653	690	705	730
GASOHOL	22	45	80	100
TOTAL DOMESTIC	5194	4877	5035	5130
EXPORTS	2433	2355	2250	2525
TOTAL DISAPPERANCE	7627	7232	7285	7655
ENDING STOCKS	1617	1034	1951	1846
FARMER HELD RSRVS	636	185	1150	1150
CCC	256	238	300	325
"FREE STOCKS"	725	611	501	371
ANNUAL AVG FARM PRICE	2.52	3.11	2.48	2.55
LOAN PRICE	2.10	2.25	2.40	2.55
TARGET PRICE	2.20	2.35	2.40	2.70
RELEASE PRICE	2.63	2.81	3.15	3.25
RESERVE ENTRY PRICE	2.40	2.40	2.55	2.70
CALL PRICE	2.80	2.94	---	---
DIVERSION PAYMENT	0.00	0.00	0.00	0.10
TOTAL DIVERSION PAYMENT	0.00	0.00	0.00	463.88
SETASIDE REQUIREMENT (%)		0	0	10
% OF FARMERS PARTICIPATING		0	0	60
PARTICIPATING ACREAGE		0.00	0.00	54.26
SETASIDE ACREAGE		0.00	0.00	5.43
STORAGE PAYMENT		108.78	304.75	298.13
DEFICENCY PAYMENT RATE		0.00	0.00	0.15
DEFICENCY PAYMENT		0.00	0.00	681.18
RESERVE LOAN REQUIREMENT		444.00	2904.75	2805.00
CCC PURCHASES		-59.54	148.80	191.25
FARM VALUE OF PRODUCTION		20674.39	20337.83	19249.52
CHANGE IN RESERVE VALUE		-1402.61	2393.20	-127.50
CHANGE IN CCC VALUE		0.00	153.76	191.25
CASH FLOW FROM RESERVES		-1206.88	2460.75	-161.68
CASH FLOW FROM CCC		0.00	148.80	191.25
FARM GROSS SALES,LOANS		20870.12	20400.42	19215.34
FARM GROSS SALES,LOANS&G.P.		20870.12	20400.42	20360.40
GOVERNMENT COST		49.25	453.55	1634.43

Table 3 **(Poor Yield)**

CORN BALANCE SHEET

VARIABLE/YEAR	79/80	80/81	81/82	82/83
BASE ACREAGE	82	85	85	85
PLANTED ACREAGE	81.4	84.1	84.3	79.57
HARVESTED ACREAGE	72.4	73.1	74.62	69.57
YIELD	109.7	90.94	109.9	99
SUPPLY				
BEGINNING STOCKS	1301	1617	1034	1951
PRODUCTION	7942	6648	8201	6853
IMPORTS	1	1	1	1
TOTAL SUPPLY	9244	8266	9236	8805
DISAPPEARANCE				
FEED	4519	4142	4250	4100
FOOD AND SEED	653	690	705	730
GASOHOL	22	45	80	100
TOTAL DOMESTIC	5194	4877	5035	4930
EXPORTS	2433	2355	2250	2375
TOTAL DISAPPERANCE	7627	7232	7285	7305
ENDING STOCKS	1617	1034	1951	1500
FARMER HELD RSRVS	636	185	1150	675
CCC	256	238	300	300
"FREE STOCKS"	725	611	501	525
ANNUAL AVG FARM PRICE	2.52	3.11	2.48	3.14
LOAN PRICE	2.10	2.25	2.40	2.55
TARGET PRICE	2.20	2.35	2.40	2.70
RELEASE PRICE	2.63	2.81	3.15	3.25
RESERVE ENTRY PRICE	2.40	2.40	2.55	2.70
CALL PRICE	2.80	2.94	---	---
DIVERSION PAYMENT	0.00	0.00	0.00	0.10
TOTAL DIVERSION PAYMENT	0.00	0.00	0.00	463.88
SETASIDE REQUIREMENT (%)		0	0	10
% OF FARMERS PARTICIPATING		0	0	60
PARTICIPATING ACREAGE		0.00	0.00	54.26
SETASIDE ACREAGE		0.00	0.00	5.43
STORAGE PAYMENT		108.78	304.75	241.81
DEFICENCY PAYMENT RATE		0.00	0.00	0.00
DEFICENCY PAYMENT		0.00	0.00	0.00
RESERVE LOAN REQUIREMENT		444.00	2904.75	1721.25
CCC PURCHASES		-59.54	148.80	0.00
FARM VALUE OF PRODUCTION		20674.39	20337.83	21519.78
CHANGE IN RESERVE VALUE		-1402.61	2393.20	-1491.50
CHANGE IN CCC VALUE		0.00	153.76	0.00
CASH FLOW FROM RESERVES		-1206.88	2460.75	-1535.91
CASH FLOW FROM CCC		0.00	148.80	0.00
FARM GROSS SALES,LOANS		20870.12	20400.42	21475.37
FARM GROSS SALES,LOANS&G.P.		20870.12	20400.42	21939.25
GOVERNMENT COST		49.23	453.55	705.70

Table 4 (Normal Yield)

SOYBEAN BALANCE SHEET

VARIABLE/YEAR	79/80	80/81	81/82	82/83
PLANTED	71.6	70.1	68.1	70
HARVESTED	70.6	67.9	66.8	69
YIELD	32.12	26.39	30.39	30.8
SUPPLY				
BEGINNING STOCKS	174	359	320	358
PRODUCTION	2268	1792	2030	2125
IMPORTS	0	0	0	0
TOTAL SUPPLY	2442	2151	2350	2483
DISAPPEARANCE				
CRUSH	1123	1020	1080	1134
SEED, IND, RESIDUAL	85	87	87	90
TOTAL DOMESTIC	1208	1107	1167	1224
EXPORTS	875	724	825	875
TOTAL DISAPPERANCE	2083	1831	1992	2099
ENDING STOCKS	359	320	358	384
ANNUAL AVG PRICE	6.28	7.62	6.40	6.49
LOAN PRICE	4.50	5.02	5.02	5.02
FARM VALUE OF PRODUCTION	14240.98	13654.13	12992.33	13792.55
BEAN/CORN RATIO	2.49	2.45	2.58	2.23

LIVESTOCK INFORMATION (IN % CHNG)

VARIABLE/YEAR	79/80	80/81	81/82	82/83
LIVESTOCK NUMBERS	1.5	-0.70	-0.75	2.30
LIVESTOCK PRICES	10	9.70	8.00	8.00

(Good Yield)

Table 5

SOYBEAN BALANCE SHEET

VARIABLE/YEAR	79/80	80/81	81/82	82/83
PLANTED	71.6	70.1	68.1	70
HARVESTED	70.6	67.9	66.8	69
YIELD	32.12	26.39	30.39	32.8
SUPPLY				
BEGINNING STOCKS	174	359	320	358
PRODUCTION	2268	1792	2030	2263
IMPORTS	0	0	0	0
TOTAL SUPPLY	2442	2151	2350	2621
DISAPPEARANCE				
CRUSH	1123	1020	1080	1135
SEED,IND,RESIDUAL	85	87	87	90
TOTAL DOMESTIC	1208	1107	1167	1225
EXPORTS	875	724	825	925
TOTAL DISAPPERANCE	2083	1831	1992	2150
ENDING STOCKS	359	320	358	471
ANNUAL AVG PRICE	6.28	7.62	6.20	5.60
LOAN PRICE	4.50	5.02	5.02	5.02
FARM VALUE OF PRODUCTION	14240.98	13654.13	12586.32	12673.92
BEAN/CORN RATIO	2.49	2.45	2.50	2.20

LIVESTOCK INFORMATION (IN % CHNG)

VARIABLE/YEAR	79/80	80/81	81/82	82/83
LIVESTOCK NUMBERS	1.5	-0.70	-0.75	2.30
LIVESTOCK PRICES	10	9.70	8.00	8.00

Table 6

(Poor Yield)

SOYBEAN BALANCE SHEET

VARIABLE/YEAR	79/80	80/81	81/82	82/83
PLANTED	71.6	70.1	68.1	70
HARVESTED	70.6	67.9	66.8	69
YIELD	32.12	26.39	30.39	28.6
SUPPLY				
BEGINNING STOCKS	174	359	320	358
PRODUCTION	2268	1792	2030	1973
IMPORTS	0	0	0	0
TOTAL SUPPLY	2442	2151	2350	2331
DISAPPEARANCE				
CRUSH	1123	1020	1080	1065
SEED, IND, RESIDUAL	85	87	87	90
TOTAL DOMESTIC	1208	1107	1167	1155
EXPORTS	875	724	825	825
TOTAL DISAPPERANCE	2083	1831	1992	1980
ENDING STOCKS	359	320	358	351
ANNUAL AVG PRICE	6.28	7.62	6.40	7.20
LOAN PRICE	4.50	5.02	5.02	5.02
FARM VALUE OF PRODUCTION	14240.98	13654.13	12992.33	14208.48
BEAN/CORN RATIO	2.49	2.45	2.58	2.29

LIVESTOCK INFORMATION (IN % CHNG)

VARIABLE/YEAR	79/80	80/81	81/82	82/83
LIVESTOCK NUMBERS	1.5	-0.70	-0.75	2.30
LIVESTOCK PRICES	10	9.70	8.00	8.00

(Normal Yield)

Table 7

WHEAT BALANCE SHEET

VARIABLE/YEAR	79/80	80/81	81/82	82/83
BASE ACREAGE	82	82	89	89
PLANTED ACREAGE	71.4	80.4	88.8	81
HARVESTED ACREAGE	62.5	70.9	80.9	71
YIELD	34.2	33.4	34.5	34
SUPPLY				
BEGINNING STOCKS	924	902	988	1164
PRODUCTION	2134	2370	2791	2414
IMPORTS	2	2	2	2
TOTAL SUPPLY	3060	3274	3781	3580
DISAPPEARANCE				
FEED	86	48	135	130
FOOD	596	614	620	640
INDUSTRY,SEED	101	114	112	110
TOTAL DOMESTIC	783	776	867	880
EXPORTS	1375	1510	1750	1600
TOTAL DISAPPERANCE	2158	2286	2617	2480
ENDING STOCKS	902	988	1164	1100
FARMER HELD RSRVS	250	360	545	545
CCC	200	196	185	185
"FREE STOCKS"	452	432	434	370
ANNUAL AVG PRICE	3.78	3.91	4.05	3.94
LOAN PRICE	2.50	3.00	3.20	3.55
TARGET PRICE	3.40	3.60	3.81	4.05
RELEASE PRICE	3.75	4.20	4.65	4.65
RESERVE ENTRY PRICE	---	3.30	3.50	3.85
CALL PRICE	4.63	5.25	---	---
DIVERSION PAYMENT	0.00	0.00	0.00	0.40
TOTAL DIVERSION PAYMENT	0.00	0.00	0.00	598.60
SETASIDE REQUIREMENT (%)		0	0	15
% OF FARMERS PARTICIPATING		0	0	55
PARTICIPATING ACREAGE		0.00	0.00	53.35
SETASIDE ACREAGE		0.00	0.00	8.00
STORAGE PAYMENT		95.40	144.43	144.43
DEFICENCY PAYMENT RATE		0.00	0.16	0.11
DEFICENCY PAYMENT		0.00	350.00	170.60
RESERVE LOAN REQUIREMENT		363.00	1835.50	2180.00
CCC PURCHASES		-22.05	-53.71	0.00
FARM VALUE OF PRODUCTION		9266.70	11303.75	9510.79
CHANGE IN RESERVE VALUE		430.10	749.25	0.00
CHANGE IN CCC VALUE		0.00	0.00	0.00
CASH FLOW FROM RESERVES		363.00	647.50	0.00
CASH FLOW FROM CCC		0.00	0.00	0.00
FARM GROSS SALES,LOANS		9199.60	11202.00	9510.79
FARM GROSS SALES,LOANS&G.P.		9199.60	11552.00	9681.80
GOVERNMENT PAYMENT		73.35	440.72	914.14

Table 8

(Good Yield)

W H E A T   B A L A N C E   S H E E T

VARIABLE/YEAR	79/80	80/81	81/82	82/83
BASE ACREAGE	82	82	89	89
PLANTED ACREAGE	71.4	80.4	88.8	81
HARVESTED ACREAGE	62.5	70.9	80.9	71
YIELD	34.2	33.4	34.5	36.4
SUPPLY				
BEGINNING STOCKS	924	902	988	1164
PRODUCTION	2134	2370	2791	2584
IMPORTS	2	2	2	2
TOTAL SUPPLY	3060	3274	3781	3750
DISAPPEARANCE				
FEED	86	48	135	155
FOOD	596	614	620	640
INDUSTRY,SEED	101	114	112	110
TOTAL DOMESTIC	783	776	867	905
EXPORTS	1375	1510	1750	1650
TOTAL DISAPPERANCE	2158	2286	2617	2555
ENDING STOCKS	902	988	1164	1195
FARMER HELD RSRVS	250	360	545	545
CCC	200	196	185	185
"FREE STOCKS"	452	432	434	465
ANNUAL AVG PRICE	3.78	3.91	3.95	3.60
LOAN PRICE	2.50	3.00	3.20	3.55
TARGET PRICE	3.40	3.60	3.81	4.05
RELEASE PRICE	3.75	4.20	4.65	4.65
RESERVE ENTRY PRICE	---	3.30	3.50	**3.85**
CALL PRICE	4.63	5.25	---	---
DIVERSION PAYMENT	0.00	0.00	0.00	0.40
TOTAL DIVERSION PAYMENT	0.00	0.00	0.00	598.60
SETASIDE REQUIREMENT (%)		0	0	15
% OF FARMERS PARTICIPATING		0	0	55
PARTICIPATING ACREAGE		0.00	0.00	53.35
SETASIDE ACREAGE		0.00	0.00	8.00
STORAGE PAYMENT		95.40	144.43	144.43
DEFICENCY PAYMENT RATE		0.00	0.16	0.45
DEFICENCY PAYMENT		0.00	350.00	697.91
RESERVE LOAN REQUIREMENT		363.00	1835.50	2180.00
CCC PURCHASES		-22.05	-53.71	0.00
FARM VALUE OF PRODUCTION		9266.70	11024.65	9303.48
CHANGE IN RESERVE VALUE		430.10	730.75	0.00
CHANGE IN CCC VALUE		0.00	0.00	0.00
CASH FLOW FROM RESERVES		363.00	647.50	0.00
CASH FLOW FROM CCC		0.00	0.00	0.00
FARM GROSS SALES,LOANS		9199.60	10941.40	9303.48
FARM GROSS SALES,LOANS&G.P.		9199.60	11291.40	10600.00
GOVERNMENT PAYMENT		73.35	440.72	1440.94

(Poor Yield)

Table 9

WHEAT BALANCE SHEET

VARIABLE/YEAR	79/80	80/81	81/82	82/83
BASE ACREAGE	82	82	89	89
PLANTED ACREAGE	71.4	80.4	88.8	81
HARVESTED ACREAGE	62.5	70.9	80.9	71
YIELD	34.2	33.4	34.5	32
SUPPLY				
BEGINNING STOCKS	924	902	988	1164
PRODUCTION	2134	2370	2791	2272
IMPORTS	2	2	2	2
TOTAL SUPPLY	3060	3274	3781	3438
DISAPPEARANCE				
FEED	86	48	135	105
FOOD	596	614	620	640
INDUSTRY,SEED	101	114	112	110
TOTAL DOMESTIC	783	776	867	855
EXPORTS	1375	1510	1750	1550
TOTAL DISAPPERANCE	2158	2286	2617	2405
ENDING STOCKS	902	988	1164	1033
FARMER HELD RSRVS	250	360	545	545
CCC	200	196	185	185
"FREE STOCKS"	452	432	434	303
ANNUAL AVG PRICE	3.78	3.91	4.05	4.19
LOAN PRICE	2.50	3.00	3.20	3.55
TARGET PRICE	3.40	3.60	3.81	4.05
RELEASE PRICE	3.75	4.20	4.65	4.65
RESERVE ENTRY PRICE	---	3.30	3.50	
CALL PRICE	4.63	5.25	---	---
DIVERSION PAYMENT	0.00	0.00	0.00	0.40
TOTAL DIVERSION PAYMENT	0.00	0.00	0.00	598.60
SETASIDE REQUIREMENT (%)		0	0	15
% OF FARMERS PARTICIPATING		0	0	55
PARTICIPATING ACREAGE		0.00	0.00	53.35
SETASIDE ACREAGE		0.00	0.00	8.00
STORAGE PAYMENT		95.40	144.43	144.43
DEFICENCY PAYMENT RATE		0.00	0.16	0.00
DEFICENCY PAYMENT		0.00	350.00	0.00
RESERVE LOAN REQUIREMENT		363.00	1835.50	2180.00
CCC PURCHASES		-22.05	-53.71	0.00
FARM VALUE OF PRODUCTION		9266.70	11303.75	9519.31
CHANGE IN RESERVE VALUE		430.10	749.25	0.00
CHANGE IN CCC VALUE		0.00	0.00	0.00
CASH FLOW FROM RESERVES		363.00	647.50	0.00
CASH FLOW FROM CCC		0.00	0.00	0.00
FARM GROSS SALES,LOANS		9199.60	11202.00	9519.31
FARM GROSS SALES,LOANS&G.P.		9199.60	11552.00	10117.92
GOVERNMENT PAYMENT		73.35	440.72	743.03

APPENDIX E

LONGER RUN IMPLICATIONS OF

- RAP in 1982/83
- Paid Diversion in 1982/83

Voluntary Setaside in 82/83 Scenario

12 MAR 1992 C O R N B A L A N C E S H E E T

VARIABLE/YEAR	79/80	80/81	81/82	82/83	83/84	84/85	85/86
PLANTED	81.4	84.1	84.3	83	80	82	86
HARVESTED	72.4	73.1	74.62	73	70	72	76
YIELD	109.7	90.94	109.9	104	105.5	107	108.5
SUPPLY							
BEGINNING STOCKS	1301	1617	1034	1951	1864	1515	1250
PRODUCTION	7942	6648	8201	7592	7385	7704	8246
IMPORTS	1	1	1	1	1	1	1
TOTAL SUPPLY	9244	8266	9236	9544	9250	9220	9497
DISAPPEARANCE							
FEED	4519	4142	4250	4400	4300	4375	4480
FOOD AND SEED	653	690	705	730	755	785	815
GASOHOL	22	45	80	100	130	160	200
TOTAL DOMESTIC	5194	4877	5035	5230	5185	5320	5495
EXPORTS	2433	2355	2250	2450	2550	2650	2750
TOTAL DISAPPERANCE	7627	7232	7285	7680	7735	7970	8245
ENDING STOCKS	1617	1034	1951	1864	1515	1250	1252
FARMER HELD RSRVS	636	185	1150	1250	950	650	450
CCC	256	238	300	300	250	250	450
"FREE STOCKS"	725	611	501	314	315	350	352
ANNUAL AVG PRICE	2.52	3.11	2.48	2.60	3.02	3.11	3.08
LOAN PRICE	2.10	2.25	2.40	2.55	2.65	2.75	2.85
TARGET PRICE	2.20	2.35	2.40	2.70	2.86	3.03	3.21
RELEASE PRICE	2.63	2.81	3.15	3.25	3.45	4.00	4.30
CALL PRICE	2.80	2.94	---	---	---	---	---

S O Y B E A N   B A L A N C E   S H E E T

VARIABLE/YEAR	79/80	80/81	81/82	82/83	83/84	84/85	85/86
PLANTED	71.6	70.1	68.1	70	70	69	71
HARVESTED	70.6	67.9	66.8	69	69	68	70
YIELD	32.12	26.39	30.39	30.8	31.1	31.4	31.7
SUPPLY							
BEGINNING STOCKS	174	359	318	375	400	391	306
PRODUCTION	2268	1792	2030	2125	2146	2135	2219
IMPORTS	0	0	0	0	0	0	0
TOTAL SUPPLY	2442	2151	2348	2500	2546	2526	2525
DISAPPEARANCE							
CRUSH	1123	1020	1060	1135	1150	1175	1200
SEED, IND, RESIDUAL	85	89	88	90	90	90	90
TOTAL DOMESTIC	1208	1109	1148	1225	1240	1265	1290
EXPORTS	875	724	825	875	915	955	975
TOTAL DISAPPERANCE	2083	1833	1973	2100	2155	2220	2265
ENDING STOCKS	359	318	375	400	391	306	260
ANNUAL AVG PRICE	6.28	7.57	6.25	5.95	6.50	7.09	7.25
LOAN PRICE	4.50	5.02	5.02	5.02	5.70	5.91	6.13
BEAN/CORN RATIO	2.49	2.43	2.52	2.28	2.15	2.28	2.35

L I V E S T O C K   I N F O R M A T I O N   (IN CHANGE IN % FROM THE PRIOR YEAR)

VARIABLE/YEAR	79/80	80/81	81/82	82/83	83/84	84/85	85/86
LIVESTOCK NUMBERS	1.5	-0.70	-0.75	2.30	1.50	1.50	1.50
LIVESTOCK PRICES	10	9.70	8.00	8.00	10.00	10.00	10.00

W H E A T   B A L A N C E   S H E E T

VARIABLE/YEAR	79/80	80/81	81/82	82/83	83/84	84/85	85/86
PLANTED	71.4	80.4	88.9	86	81.5	80	82
HARVESTED	62.5	70.9	80.9	76	72	70	72
YIELD	34.2	33.4	34.5	34.4	34.8	35.2	35.6
SUPPLY							
BEGINNING STOCKS	924	902	988	1164	1230	1221	1107
PRODUCTION	2134	2370	2791	2614	2488	2464	2563
IMPORTS	2	2	2	2	2	2	2
TOTAL SUPPLY	3060	3274	3781	3780	3721	3687	3672
DISAPPEARANCE							
FEED	86	48	135	200	100	115	115
FOOD	596	614	620	640	660	680	700
INDUSTRY,SEED	101	114	112	110	100	105	100
TOTAL DOMESTIC	783	776	867	950	860	900	915
EXPORTS	1375	1510	1750	1600	1640	1680	1720
TOTAL DISAPPERANCE	2158	2286	2617	2550	2500	2580	2635
ENDING STOCKS	902	988	1164	1230	1221	1107	1037
FARMER HELD RSRVS	250	360	545	675	575	375	375
CCC	200	196	185	235	335	435	435
"FREE STOCKS"	452	432	434	320	311	297	227
ANNUAL AVG PRICE	3.78	3.91	3.78	3.74	4.23	4.23	4.35
LOAN PRICE	2.50	3.00	3.20	3.55	3.60	3.75	3.90
TARGET PRICE	3.40	3.60	3.81	4.05	4.29	4.55	4.82
RELEASE PRICE	3.75	4.20	4.65	4.65	4.90	5.15	5.40
CALL PRICE	4.63	5.25	---	---	---	---	---

82/83 Paid Diversion Scerario

12 Mar 82 — C O R N B A L A N C E S H E E T

VARIABLE/YEAR	79/80	80/81	81/82	82/83	83/84	84/85	85/86
PLANTED	81.4	84.1	84.3	79	82	84	86
HARVESTED	72.4	73.1	74.62	69	72	74	76
YIELD	109.7	90.94	109.9	104	105.5	107	108.5
SUPPLY							
BEGINNING STOCKS	1301	1617	1034	1951	1648	1485	1404
PRODUCTION	7942	6648	8201	7176	7596	7918	8246
IMPORTS	1	1	1	1	1	1	1
TOTAL SUPPLY	9244	8266	9236	9128	9245	9404	9651
DISAPPEARANCE							
FEED	4519	4142	4250	4200	4325	4400	4480
FOOD AND SEED	653	690	705	730	755	790	825
GASOHOL	22	45	80	100	130	160	270
TOTAL DOMESTIC	5194	4877	5035	5030	5210	5350	5575
EXPORTS	2433	2355	2250	2450	2550	2650	2750
TOTAL DISAPPERANCE	7627	7232	7285	7480	7760	8000	8325
ENDING STOCKS	1617	1034	1951	1648	1485	1404	1326
FARMER HELD RSRVS	636	185	1150	975	875	825	700
CCC	256	238	300	300	300	300	250
"FREE STOCKS"	725	611	501	373	310	279	376
ANNUAL AVG PRICE	2.52	3.11	2.61	2.92	2.99	3.08	3.00
LOAN PRICE	2.10	2.25	2.40	2.55	2.65	2.75	2.85
TARGET PRICE	2.20	2.35	2.40	2.70	2.86	3.03	3.21
RELEASE PRICE	2.63	2.81	3.15	3.25	3.45	3.60	4.30
CALL PRICE	2.80	2.94	---	---	---	---	---

S O Y B E A N   B A L A N C E   S H E E T

VARIABLE/YEAR	79/80	80/81	81/82	82/83	83/84	84/85	85/86
PLANTED	71.6	70.1	68.1	70	68	69	71
HARVESTED	70.6	67.9	66.8	69	67	68	70
YIELD	32.12	26.39	30.39	30.8	31.1	31.4	31.7
SUPPLY							
BEGINNING STOCKS	174	359	318	375	435	384	314
PRODUCTION	2268	1792	2030	2125	2084	2135	2219
IMPORTS	0	0	0	0	0	0	0
TOTAL SUPPLY	2442	2151	2348	2500	2519	2519	2533
DISAPPEARANCE							
CRUSH	1123	1020	1060	1100	1130	1160	1160
SEED, IND, RESIDUAL	85	89	88	90	90	90	90
TOTAL DOMESTIC	1208	1109	1148	1190	1220	1250	1250
EXPORTS	875	724	825	875	915	955	995
TOTAL DISAPPERANCE	2083	1833	1973	2065	2135	2205	2245
ENDING STOCKS	359	318	375	435	384	314	288
ANNUAL AVG PRICE	6.28	7.57	6.59	6.54	6.89	7.34	7.51
LOAN PRICE	4.50	5.02	5.02	5.02	5.70	5.91	6.13
BEAN/CORN RATIO	2.49	2.43	2.53	2.24	2.30	2.38	2.51

L I V E S T O C K   I N F O R M A T I O N   (IN CHANGE IN % FROM THE PRIOR YEAR)

VARIABLE/YEAR	79/80	80/81	81/82	82/83	83/84	84/85	85/86
LIVESTOCK NUMBERS	1.5	-0.70	-0.75	2.30	1.50	1.50	1.50
LIVESTOCK PRICES	10	9.70	8.00	8.00	10.00	10.00	10.00

WHEAT BALANCE SHEET

VARIABLE/YEAR	79/80	80/81	81/82	82/83	83/84	84/85	85/86
PLANTED	71.4	80.4	88.9	80	81.5	81.5	82
HARVESTED	62.5	70.9	80.9	70	72	72	72
YIELD	34.2	33.4	34.5	34.4	34.8	35.2	35.6
SUPPLY							
BEGINNING STOCKS	924	902	988	1164	1094	1084	1023
PRODUCTION	2134	2370	2791	2408	2488	2517	2563
IMPORTS	2	2	2	2	2	2	2
TOTAL SUPPLY	3060	3274	3781	3574	3584	3603	3588
DISAPPEARANCE							
FEED	86	48	135	130	100	115	115
FOOD	596	614	620	640	660	680	700
INDUSTRY,SEED	101	114	112	110	100	105	100
TOTAL DOMESTIC	783	776	867	880	860	900	915
EXPORTS	1375	1510	1750	1600	1640	1680	1720
TOTAL DISAPPERANCE	2158	2286	2617	2480	2500	2580	2635
ENDING STOCKS	902	988	1164	1094	1084	1023	953
FARMER HELD RSRVS	250	360	545	545	545	545	540
CCC	200	196	185	185	185	185	185
"FREE STOCKS"	452	432	434	364	354	293	228
ANNUAL AVG PRICE	3.78	3.91	3.98	3.95	4.07	4.18	4.29
LOAN PRICE	2.50	3.00	3.20	3.55	3.60	3.75	3.90
TARGET PRICE	3.40	3.60	3.81	4.05	4.29	4.55	4.82
RELEASE PRICE	3.75	4.20	4.65	4.65	4.90	5.15	5.40
CALL PRICE	4.63	5.25	---	---	---	---	---

QUESTIONS ON REPORT

Senator **Eagleton**. I am going to ask you to take this report with you and to have your folks study it and respond in writing. Here is my question based on this report which the University of Missouri School of Agriculture prepared at my request. It is about a nine-page written report and then supporting tables.

The basic point that these folks make is that your administration selected a comparatively low-cost farm program which will not provide adequate income to farmers, which will provide burdensome supplies to hang over the market in the 1983 and 1984 market years, and which may result in an even higher priced farm program in the out-years. Just to quote one specific part of the report, page 7, the bottom paragraph, here is what they say:

> Low participation in the program could lead to prices near the loan and increases in reserves. Government expenditures would be high due to storage payments, deficiency payments, and CCC purchases. Low participation with high reserve activity results in breakeven prices for corn and wheat, but this occurs only because grain is removed from the market, a situation that must be dealt with in later years. High participation has the potential of reducing acreage,. however, the reduction will not likely be enough to prevent the accumulation of stocks.
>
> Thus, the potential exists for a very large reserve situation to become larger.

And later on down on page 8:

> This implies that a correction strategy for 1983-1984 must be a very strong reduced acreage program that does not contain a stimulus for reserve building activity. It is very likely that this corrective action will be substantially more expensive later than appropriate adjustments taken in the 1982-1983 crop.

That is what these folks out at the University of Missouri School of Agriculture say with respect to your program. If you care to give a quick response thereto, fine. If you don't, I understand, because I have just handed you the report, which I swear to you I just got myself today at noon.

Secretary **Block**. Well, Senator, the potential exists for every one of the parts of that scenario the University suggests. It is entirely possible. It could be different than that, too. I don't think any of us really knows. If we do see stocks build this year as a result of another huge crop, which only Mother Nature can control, then it will be necessary to take some very firm action to get this thing under control. If the weather is different, then the situation can be handled and managed in a different fashion.

Senator **Eagleton**. I will take that answer for the moment, because I am hitting a sore point. If you care to elaborate after your staff and aides have gone through the study, I would like to have a further answer. If we get such an answer, I would ask it be included in the record.

Senator **Cochran**. Without objection, it will be made a part of the record.

Senator **Eagleton**. Thank you, Mr. Chairman.

[The information follows:]

Observations on the University of Missouri Study of the 1982 Acreage Reduction Program

The study purports to identify the USDA strategy as one of "timid" acreage reduction programs coupled with high reserve incentives. The study concludes that the end result of such a program will be relatively flat market prices with a further build-up of the farmer-owned reserve.

We disagree with that characterization of the 1982 programs, and we do not concur in the finding that our program will further unbalance the grain supply situation and lead to unmanageable stocks next year.

When we designed our program, our objectives were several:

- Halt the rapid increase in grain stocks by reducing planted acreage;
- Provide an attractive reserve program, both as an incentive for participation in the acreage reduction program and as an end in itself, providing stable supplies to the livestock industry and to foreign buyers;
- Reduce direct government payments to farmers and substitute repayable loans;
- Provide a climate in which farm income will depend more on the marketplace and less on transfer payments.

We were convinced that a production adjustment program of some type was needed for the 1982 crops. In designing the 1982 program, of course, we had several choices. One was to risk a lower participation rate by calling for higher reduction percentages. Another was to achieve higher participation by paying farmers not to plant. In the former case, low participation could have meant that the price support mechanism would be prevented from working effectively, because too little grain was eligible. In the latter case, our analysis showed that the addition of paid diversion programs would result in higher total government costs (as the Missouri study also concludes). The deficit would have been aggravated, and we might have paid for reducing production more than was desirable if yields turn out poor and slow the recovery of feed and export demand.

We opted for the middle ground. As the general economy improves, the large reserve holdings will enable solid, long-term growth to occur. Therefore, we announced the 15 percent acreage reductions for wheat, rice, and cotton and the 10 percent reduction for feed grains. We increased the loan premiums for the farmer-owned reserve, as well.

The response of farmers to this program—judging from the sign-up reports—is that they will participate in even greater numbers than we estimated earlier. The participation should certainly turn out to be greater than the 25 percent assumed in the Missouri study, Cases A or B. At this time, we have no problem subscribing to the basic outcome projected under Case C of the study. We do not, however, think that such an outcome means that our program will have failed in 1982-1983. It will have provided, instead, a solid basis on which demand for grain can rebuild when the general economy improves.

Should stocks continue to build during 1982-1983 in spite of the program, it is possible that we might need more stringent acreage reductions in 1983-1984. Our reserve, however, will signal to grain consumers worldwide that they may safely proceed with expansion plans, because stable supplies will be available.

CARIBBEAN INITIATIVE

Senator **Cochran**. Senator Andrews, do you have some additional questions?

Senator **Andrews**. I have a couple, Mr. Chairman.

Mr. Secretary, as you know, we have included a sugar section in the 1981 Farm Act. Shortly after that was signed into law, the President made a speech talking about a new Caribbean initiative. As I understand it, part of that Caribbean initiative is to allow the import, duty-free, of some 1.15 million tons of sugar. What is that new Caribbean initiative going to add to the cost of the sugar program? When we figured it out and put it together, as you know, the import fees were going to be a large part of the financing of this program. Now, how much does this throw the program's cost out of sync?

Secretary **Block**. It will reduce Treasury receipts generated by import duties.

Senator **Andrews**. Do you know how much?

Mr. **Lyng**. It isn't very much.

Senator **Andrews**. Does one of your economists know how much?

Mr. **Lyng**. I am not an economist.

Senator **Andrews**. Tuesday, I was in St. Louis talking to 1,100 dairy farmers, and I had a fairly delightful time with them. But on the program also was the Nebraska Dairy Princess. I had mentioned a little something about economists in my speech, and later she talked about the farm wisdom she had. Her parents were both there. She said that listening to economists is like a bull in the barn taking advice from the steer on how to do his job. [Laughter.]

Dick Lyng has the answer to how much this is going to add to the cost of the program.

Mr. **Lyng**. We are proposing to eliminate the duty on the sugar coming from the Caribbean but to retain the fee that was instituted.

Senator **Andrews**. So the fee will be retained, but we will boost the income?

Mr. **Lyng**. The fee would be increased on all sugar to offset the duty-free treatment for Caribbean sugar. Thus, Caribbean sugar would have an advantage over sugar which is imported from other countries and which is subject to both the duty and the fee. Treasury receipts should remain about the same.

Senator **Andrews**. But could you or some of your economists provide the details?

Secretary **Block**. We will provide the details.

[The information follows:]

MARKET STABILIZATION PRICE FOR SUGAR

The market stabilization price currently incorporates an adjustment for duty-free sugar imports. In December, we assumed that 0.5 cent was sufficient. The market stabilization price was calculated as follows:

	Cents/pound
Raw sugar purchase rate	16.75
Transportation and handling	1.63
Duty-free factor	0.50
Incentive	0.20
Market stabilization price	19.08

As shown in the following example, any change in the estimation of duty-free imports would change the duty-free factor, and, under the current system, the market stabilization price. The fee would increase by the amount of change in the duty-free factor, as well.

EXAMPLE OF DUTY-FREE FACTOR CALCULATION

Situation A: Total imports 3.0 million metric tons; Duty-free imports 1.0 million metric tons; Duty 2.8125 Cents/pound; Duty-free benefit shared 50-50 between importer and exporter; 1 metric ton equals 2204.6 pounds.

Duty loss equals 0.028125 times 1.0 times 2204.6 times 0.5 equals $31 million.

Duty-free factor equals $31 million/(3.0 times 2204.6) equals 0.4687 cents/pound.

Situation B: Total imports 3.0 million metric tons; Duty-free imports 2.0 million metric tons; Duty 2.8125 cents/pound; Duty-free benefit shared 50-50 between importer and exporter; 1 metric ton equals 2204.6 pounds.

Duty loss equals 0.028125 times 2.0 times 2204.6 times 0.5 equals $62 million.

Duty-free factor equals $62 million/(3.0 times 2204.6) equals 0.9374 cents/pound.

If the various assumptions are accurate, the effective level of border protection and Treasury receipts would be no different under Situation B than under Situation A. (It is assumed that the necessary fee does not exceed the 50 percent ad valorem limit)..

If the difference in Situation A and Situation B were due to the Caribbean Basin Initiative, the Caribbean exporter would be better off. In the example, the exporter would receive 50 percent of the duty benefit (1.40625 cents) as a premium over the price paid for dutiable sugar.

Dr. LESHER. We concur that the operation of the program should be no cost to the farmer.

Senator ANDREWS. That is how we designed it.

Dr. LESHER. On sugar coming from the Caribbean Basin, the duty would not be charged, but we do have other mechanisms to increase the protection so the cost of the program to the Federal Government is held to zero if at all possible. That is what you are really asking, the cost to the government.

SUGAR PRICES

Senator ANDREWS. That is right, and also given this new set of circumstances, what is the net end price for sugar in the United States? What figure are you going to operate at? I think you have arrived at that figure. Could you provide that for the record?

Dr. LESHER. Right now you have a market stabilization price of 19.08 cents, as you know.

Senator ANDREWS. That is right. But during the discussion of the bill, you came up with prices all the way from 23 cents down to 18 cents, and I was wondering now that it is in law, what is the level?

Dr. LESHER. We have to keep looking at that. The market price objective is to make sure we don't take over sugar so it maintains the zero cost. So it may have to go up. We are looking carefully at this right now.

Secretary BLOCK. We are following it very closely. I have asked for Deputy Under Secretary Hammer to have an informal group of industry people meet with us periodically and keep us posted on what is happening in the sugar program. It is a tricky, difficult thing to operate. We spent endless hours to put it together in a way—and this was true with this Caribbean Basin initiative also—in a way that we won't get overrun with sugar from other countries. So we will provide the necessary support to the program to enable it to work as intended by Congress. We are going to be watching it closely.

Senator ANDREWS. Mr. Secretary, since this subcommittee will have responsibility for taking care of the funding, whatever funding is necessary, could you provide the subcommittee an update of what price you are settling in on and what your estimated figures are going to be?

Secretary BLOCK. Yes, sir.

RED RIVER VALLEY SUGAR BEET AREA DISASTER

Senator ANDREWS. Finally, Mr. Secretary, the sugar beet area of the Red River Valley suffered a disaster, unlike any in the last 60 years. We had a 5- or 6-day hard freeze. In spite of this disaster, the farmers in my area who had crop insurance—let me hasten to assure you I did not have Federal crop insurance, so I am not talking about my own backyard—but the farmers who did have it have received only about $20,000 in claims because of the collection of riders. This is in spite of the fact the estimated loss for those who did carry the insurance is in the neighborhood of $50 million. While I know you don't have the information on hand, I would appreciate it if you could discuss this with Wayne Fletcher of the Federal Crop Insurance Corporation, who has met with the growers and promised to see what is going on. He has promised an answer by tomorrow, as our growers are running up against a sign-up. Insurance for beet growers has proven to be a total hoax. If something can't be done on the administration level, then we are going to have to go for congressional action. I think it is something that ought to be solved in-house. So if you could provide for the record or send a note to my office what is being done, it will help a lot.

Secretary BLOCK. We will get that information to you.

Senator ANDREWS. I thank you, Mr. Secretary. My commendation on your appearance.

[CLERK'S NOTE: The information referred to above appears on pages 355–356.]

Thank you, Mr. Chairman.

Secretary BLOCK. Thank you, Senator.

Senator COCHRAN. Senator Kasten.

MODIFICATION IN DAIRY PROGRAM

Senator KASTEN. Mr. Secretary, I think it would be a grave mistake to completely dismantle the current dairy program which has generally served producers and consumers well and has provided the stability we need in the marketplace. Any modification or adjustment, I believe, must be designed to maintain stability and to, provide fair prices to hard-pressed producers plagued right now by high operating costs and also higher and higher interest rates. At what point do you anticipate the Department will arrive at a specific position on the steps that should be taken to address the current dairy surplus problem?

Secretary BLOCK. We feel sometime toward the end of May, or the first of June, we should have all the information put together and be in a position to come forward to Congress. Maybe sooner.

Senator KASTEN. Will this position reflect testimony at Kansas City?

Secretary BLOCK. Yes, sir.

BASE EXCESS PROGRAM

Senator KASTEN. It is my understanding that a great deal of support was evidenced in Kansas City for the base excess program proposed by Congressman Gunderson and others. Do you, Mr. Secretary, have any concerns over the quota system?

Secretary BLOCK. I might have some. I want to study this whole thing, all of this information, and review it before I go on record or even talk in specific terms about what we are shooting for in the way of a dairy program. I think it is only fair to those who made the effort to make that testimony, and I don't want to prejudge it until I have a look at it.

Senator COCHRAN. If the Senator would yield, I might say, just as a matter of information, I also serve as chairman of a subcommittee on the Agriculture Committee, and we are planning to hold hearings on the dairy program. We will look into alternatives that are available to get the program under control and still try to have a healthy dairy industry. Those hearings will probably be scheduled for May sometime. It would be very good if we could have a proposal from the administration sometime during that month. If that is not possible, we could continue the hearings into June until we do carefully analyze the alternatives available to the Congress.

Secretary **Block**. We will work to get something started by then so we can cooperate and be as helpful as possible. I think it is a good idea to have those hearings.

APPREHENSION IN DAIRY-PRODUCING STATES

Senator **Kasten**. I might add, Mr. Chairman and Mr. Secretary, that what you have right now is chaos and fear in the dairy-producing States, because farmers don't know what is going to happen. They don't know what you are going to suggest. I think the sooner we have the Administration proposal, the better, and if we can have it before both the authorizing committee and the appropriating committee in May, that would be great. April would be better.

CASEIN

You talked a little bit about exports. I don't know if you are aware of the gap in exports and imports of dairy products. This year it was $225 million. Now, if no casein had been imported in 1980, there would have been a $200 million savings in CCC outlays.

First, I would like to ask, why didn't you and the Department take a more aggressive position in the recent hearings that were held on the casein problems in front of the Commission, and why didn't you back up the report that came out of your own shop which said that imported casein has taken the place or did take the place of milk that would have been produced?

Secretary **Block**. Our report was available for the record. I didn't feel that it was appropriate for us to do the work for the Commission. It is their job to judge it on the merits. I feel there was plenty of testimony. The dairy industry testified. Everybody gave them information, and it was their responsibility to review it. We just saw to it that it got through our office and it got to the Trade Commission so there could be a fair and objective review.

DAIRY EXPORTS

Senator **Kasten**. Let's put casein aside. What are you doing to increase the export of dairy products?

Secertary **Block**. It is very difficult, not with regard to places, but to find ways to export. The export of dairy products is not easy because our dairy industry is not competitive in producing dairy products for export. Our prices are substantially above the world market, and consequently, we are not without subsidies of some kind, which we don't like to use. But we can't compete.

EEC DAIRY SUBSIDIES

Senator **Kasten**. But don't the Common Market countries and other countries that we supposedly are competing with have subsidies and other unfair trade practices? If our farmers could compete directly head on, we would be competing and meeting the price, wouldn't we?

Secretary **Block**. Well, we are trying very vigorously as a total Administration to cause the European Community to discontinue their export subsidies, because we feel that they constitute unfair trade practices. I don't think that the answer is for the United States to start playing that unfair game, when we are complaining that they are doing so.

Furthermore, some of our difficulties in competing come from countries such as Australia and New Zealand, and there isn't evidence of a great amount of subsidy in New Zealand, for instance.

So we can point the finger at the European Community—and we have been—but I don't think the solution is to take up the game they are playing because we don't believe in their game.

DAIRY IMPORTS

Senator KASTEN. Of the over $500 million in dairy imports last year, how much do you feel is directly displacing domestic production, and how much of it would be, as an example, Brie cheese, or specialty cheeses that we don't produce? Do you have any idea or information on that?

Secretary BLOCK. I will try and get that for the record.

[The information follows:]

IMPORTS OF DAIRY PRODUCTS

Our imports of all dairy products amounted to $523 million last year but they represented less than 2 percent of U.S. milk output on a milk equivalent fats solids basis. Cheese is our major import item, 85 percent of our dairy imports on a fats basis, and the 248 million pounds we brought in during 1981 was only about 6 percent of last year's domestic cheese production. From the mid-1960s to mid-1970s, annual cheese imports averaged nearly 8 percent of our yearly output.

We have developed the capacity and we are currently producing some of the European soft-ripened and fresh cheeses in this country such as Brie, Camenbert, Rondelet, and others using United States milk. In recent years, Americans have become much more sophisticated in their use of cheeses and are enjoying a great variety of both domestic and imported types. We believe the imported cheeses have helped nurture this demand for variety and are complementing and increasing sales of our domestic types. Last year United States consumption of cheese, excluding cottage cheese, rose to over 18 pounds per person reaching another record and marking a nearly steady rise in cheese use over the past two decades.

We do not have specific data on the dairy imports displacing our domestic products and those that do not. Of course, imported cheddar cheese and American type cheese are likely to compete with our domestic cheeses. Another major category of cheese imports are the Swiss or Emmenthaler types (66,826,660 pounds in 1981), and our best estimate is that 25 percent of these are competitive with our barrel cheese used for processing. The bulk of the Swiss imports are table cheese and should be considered as complementary rather than competitive with our domestic Swiss cheese. The NSPF category of cheese imports accounted for 83,334,817 pounds in 1981 and includes some 300 different types of cheese. A sizeable proportion of NSPF cheeses are probably competive with our barrel type cheeses, although this quota is also used for most of the specialty table cheeses that are not "soft-ripened" or made from milk other than cow's milk. Italian type cheese imports totaled 8,632,535 pounds in 1981. Although some goes for grinding, a significant share, particularly that from Italy, is the true Parmesan costing over $4.00/pound wholesale and is not competitive with our domestically produced types.

IMPORTING PROBLEMS

Senator KASTEN. If we can't deal with our export problems, then we ought to take some steps to deal with the problems of importing, as long as we are faced with this huge surplus. In other words, we ought to use our own before bringing in subsidized products from other countries if, in fact, they can be substituted one for one.

FREE TRADE MARKETS

Secretary BLOCK. Senator, as a matter of philosophy, I don't think the solution is to cut off someone's imports or put up more import barriers. The solution is for us to be more competitive, and I think we should export more. We need to be looking toward less trade barriers in this world and a competitive effort to secure the markets for ourselves.

Senator KASTEN. I agree. But since they put tariff and nontariff barriers on our products, and they subsidize their production, I think we have only two options. You are exactly right that the free market, with everybody competing equally, is clearly the best. But we are not faced with that world right now. If we can't demand they tear down the tariff and non-tariff barriers and get rid of them, we have two choices—continue to lose dairy farmers or fight fire with fire. I agree with you that the first program would be better.

DAIRY BOARD

Do you believe that a dairy board or producer representation could function effectively in the administration of a national dairy stabilization program?

Secretary BLOCK. I don't know that that is a solution. I think we are getting into the whole idea of how we solve the problem and how we deal with it when we talk about that. I think we have to look at that suggestion in the total context of what kind of program or solution we are going to have.

Senator KASTEN. I have three or four other questions that would relate directly to a program, and what I will do is submit them for the record. You can get back to us with responses.

[CLERK'S NOTE: Senator Kasten's additional questions appear on page 357.]

USAF POLICY REGARDING MARGARINE

Senator KASTEN. In conclusion, it was reported in a newspaper recently that our Government, specifically the U.S. Air Force, had a policy to use margarine or oleo rather than butter or cheese in Air Force diets, and they turned down offers of surplus dairy products. Is that true?

Secretary BLOCK. I am told it is true. It sounds ridiculous to me, but I am told it is true.

Senator KASTEN. Can you tell me about the decision? Who turned down free dairy products?

Secretary BLOCK. The Surgeon General of the Air Force has turned them down, but I don't think we have any more information than that. We are pursuing it and trying to find out.

Senator KASTEN. The Surgeon General of the Air Force?

Secretary BLOCK. That is what I am told. I don't have the evidence; that is what I was told. Do you have different evidence?

Senator KASTEN. I am just asking you.

Secretary BLOCK. That is the evidence I have; that is what I have been told. It bears looking into. We are investigating the matter because, as I said, it sounds ridiculous to me.

Senator **Kasten**. I think it sounds ridiculous to all of us. If an individual airman or soldier wants to have one or the other, he can have that choice. I don't think the Government ought to be determining that.

Thank you, Mr. Chairman.

Senator **Cochran**. Thank you, Senator.

Senator Sasser.

Senator **Sasser**. Thank you, Mr. Chairman. I have another question here for the Secretary.

TERMINATION OF EMERGENCY FEED PROGRAM

Mr. Secretary, recently the Department of Agriculture announced that it was ending the emergency feed program. Now, this has been a very successful program for farmers who have been victims of natural disaster. As you know, the program reimbursed eligible farmers for up to one-half the cost of buying additional feed when their crops were ruined by flood or drought and kept them from losing cattle, hogs, et cetera. It has been indicated that the reason for eliminating the program was because of the need to reduce the Federal budget. We all want to do that. Everybody on this committee is working in that direction. But I think this is one cut that is not in the public interest, and I think it could very well result in reduced farm output and even reduced national income as well.

I will cite an example of the effectiveness of this program. We had a severe drought in my State of Tennessee in 1980, and in 1980, 4,744 Tennessee farmers received $8.8 million following the severe drought which had devastated their farms particularly in the western portion of my State. Tennessee farmers received 40 percent of this national program. Now it is not an extravagant program. I don't think it is a giveaway. I think it recognizes in a time of severe disaster, certainly something that farmers have no control over, that they need to have a helping hand in getting back on their feet.

I note that the Department of Agriculture has indicated that, at your discretion—if you want to—you can reinstitute the program if an emergency exists. My question to you is this. Would you re-implement the emergency feed program if we are faced with a severe drought, for instance, as we were in my State in 1980?

Secretary **Block**. It would not be likely that I would re-implement that program. It has been criticized heavily by farmers themselves as a program, the regulations of which have been circumvented to the advantage of some farmers at the expense of others. Frankly, it is not a very popular program except to those who have taken advantage of it.

Thus, I would not choose to reimplement the program. Rather, I would choose to rely on the standard programs—Farmers Home loans and other types of existing programs—to help farmers during difficult times and certain kinds of emergencies.

Senator **Sasser**. Well, it was a pretty popular program with the farmers in my area when they needed to have access to that emergency feed back in 1980. I sure didn't hear any of them complaining about it. There is some question now arising about what happens if we have another severe drought, and from what I can hear and see and read, the Farmers Home Administration is not being a lot of help to anybody these days. They are being cut back pretty dramatically.

You and I had a conversation when you appeared before the Budget Committee about Farmers Home moving in, and I won't say threatening foreclosure, but many farmers feel they are, in fact, being threatened with foreclosure during this period of time. So I don't have much hope that we can look to the Farmers Home Administration for much help if we get into another disaster situation.

I would hope that if we do get into another severe drought or disaster, you would rethink your views on that, Mr. Secretary.

Thank you.

Senator COCHRAN. Senator Eagleton, do you have any other questions?

Senator EAGLETON. I have two more, Mr. Chairman, then I will be through.

CUTS IN NUTRITION PROGRAMS

Mr. Secretary, the President, as he is prone to do, came out again on Monday with another fictional fact. The Washington Post, Monday, March 22, headline, "Malnutrition Versus the Budget." The President was getting off his chopper from Camp David and was asked a profound question pertaining to the fact that his budget cuts may be responsible for a rise in malnutrition. The President said, "I think it's a great exaggeration. We have not reduced spending to below what it was; we have only reduced the rate of increase in spending. We are spending 4.5 percent more next year than we did last year."

Now here are the facts, and then I will ask you a question. The Food and Nutrition Service budget has dropped from $16.2 billion in fiscal year 1981 to $15.3 billion in fiscal year 1982, and it is proposed to drop to $13.4 billion in fiscal year 1983. Question: did you supply the President with the statistic that the Government is going to spend 4.5 percent more next year on nutrition?

Do you want the article?

Secretary BLOCK. It wouldn't hurt if I had it.

Senator EAGLETON. It is underlined there.

[The article follows:]

USDA ASCS CLIPPINGS

MAR 22 1982

A16 Monday, March 22, 1982 THE WASHINGTON POST

Malnutrition vs. the Budget

By Charles R. Babcock
Washington Post Staff Writer

Malnutrition found in some low-income children recently by Boston-area pediatricians is a sign of the potential harm of Reagan administration budget cuts in the women, infants and children (WIC) food program, a nutrition advocacy group contends.

But President Reagan, returning to the White House from Camp David yesterday, disputed any suggestion that his budget cuts may be responsible for any rise in child malnutrition.

"I think it's a great exaggeration. We have not reduced spending to below what it was, we have only reduced the rate of increase in spending. We are spending more by 4½ percent next year than we did this year," Reagan said in response to reporters' questions about the report, released yesterday by the Food and Research Action Center.

The Washington-based group cited the Boston cases as evidence that Congress shouldn't accept the proposal to cut WIC from $900 million to $600 million in a health block grant.

The program was cut only about 4 percent last year. WIC, which supplies supplemental nutrients to poor pregnant and nursing mothers and their young children, was begun in 1972 and now serves about 2 million people.

Dr. William Bithoney, director of the child health program at Boston's Children's Hospital, said in a telephone interview over the weekend that 10 of the 100 youngsters he examined last week were suffering from mild malnutrition.

He said two youngeters who were dropped from Boston WIC programs because their parents failed to comply with exam or inoculation schedules suffered sharp weight losses and infections. They were reinstated to the program.

Bithoney acknowledged that these cases of malnutrition weren't caused by budget cuts. But he expressed fears that the cases "may well be symptomatic of what we might see across the country" if the cuts go through.

In a statement, the nutrition group also noted three cases found by Dr. Deborah Frank and by Boston City Hospital's "failure to thrive" teams, which deal with children who don't grow at their age group's expected levels.

Frank cited children who dropped from the WIC program, then showed loss of weight and illness. "We have an extremely fragile system of food assistance in place now," she said in the statement. "The problems of malnutrition and 'failure to thrive' that we are seeing today will only be made worse by budget cuts . . . ."

Jerianne Heimendinger, director of nutrition service for Rhode Island's health department, told the House Education and Labor Committee last week that WIC is a success and shouldn't be cut. The committee has recommended that the House Budget Committee reject the proposed Reagan cuts in WIC and other nutrition programs.

GOVERNMENT-WIDE EXPENDITRURES

Secretary **Block**. Senator, I think this figure here, this 4.5 percent next year increase, is probably talking about government-wide expenditures.

Senator **Eagleton**. On what? The Pentagon?

Senator **Block**. It probably comes from OMB.

Senator **Eagleton**. It come out of thin air; that's where it comes from. I have just given you the Food and Nutrition Service budget, a huge decrease, a drop from fiscal year 1982 to 1983 of exactly $2 billion. It is another one of the President's concoctions. Can you attempt to supply the President with some accurate statistics on Government spending on food and nutrition programs? If you can't give them to the President, can you get them to Mr. Meese, because the President, I think, does himself a great personal disservice and does the country an enormous disservice by making such statements. He has a new offensive. He is going to be a fair President. If he is going on an offensive, arm him with some accurate statistics or take him off the offensive; let him go back to Camp David.

Dr. **Lesher**. Senator, I read this story, and I found it to be the height of fiction for this reporter to find a doctor from a Boston children's hospital in a telephone interview——

Senator **Eagleton**. I am not talking about the doctor from Boston. The President is asked a question as he is getting off the chopper. I saw it on television. He cups his ear, and he either reaches for the General Electric cue card or he blurts out some inane answer that cannot be backed up by any semblance of fact. He does it time and time again. People who study these programs are beginning to smirk—does the man really know what is going on? You are slashing the food service budget; you are slashing food stamps; you are slashing special milk. Your own prepared testimony highlighted all the slashes in the nutrition programs. Where in Heaven's name did the President come up with a figure like that? He must have gotten it from the spaceship Columbia.

Secretary **Block**. Senator, I can't verify the preciseness of that figure.

Senator **Eagleton**. You can verify that it is grotesquely imprecise.

Secretary **Block**. Not necessarily, I wouldn't say that necessarily. The Federal budget is increasing. I don't know if that is the exact figure.

Senator **Eagleton**. In entitlements?

Secretary **Block**. No, the whole budget. There are a lot of entitlements that are going up. Add them into the whole budget and I suspect——

Senator **Eagleton**. You ask Dr. Jean Mayer, the President of Tufts University, a leading nutritionist, if there is going to be enhanced nutrition in this country as a result of President Reagan's budget, and he will laugh you out of the room. Dr. Mayer has said that the Reagan budget is scandalous insofar as nutrition goes, and the long-range nutritional ramifications of the Reagan budget on elderly people, on children, on handicapped people, are nothing short of cruel and harsh. That is not the conclusion of a politician;

that is the conclusion of an academician, the President of one of the most prestigious universities in the country. For the President to go on the offensive that his program is fair to the poor, and then to be selling this kind of malarkey that this administration is going to be spending more on nutrition, it is shameful. The President ought to know it, and time is catching up with him. He was indulged in these press conference mistakes for the calendar year, of 1981, but the record is being kept. People are adding it up, and some people wonder whether we have a vacuous President, at least I do.

FEWER FOOD STAMPS FOR ELDERLY, DISABLED

Let me ask one more question on nutrition. The Congressional Budget Office has estimated that 92 percent of all households with elderly or disabled members would either have their food stamp benefits reduced or eliminated altogether. Do you agree with that Congressional Budget Office estimate?

Secretary BLOCK. What was the number, sir?

Senator EAGLETON. CBO has estimated that 92 percent of all households with elderly or disabled members would either have their food stamp benefits reduced or eliminated altogether.

Secretary BLOCK. Senator, that could be true. If they fall into the higher income level of food stamp reipients, that would be the case. I can't verify.

Senator EAGLETON. Elderly and disabled people on food stamps in higher income level of food stamp recipients, that would be the case. Palm Beach?

The President says we are doing better on nutrition.

You know you are going to save a few dollars, Mr. Secretary. I am sympathetic with the dilemma you have as the Secretary of Agriculture. I guess you are beginning to wonder why you took the job. I wonder why anybody ever takes the job. You are going to save some dollars; you are going to gut the nutrition and feeding programs, and particularly WIC, as well as special milk. You are going to save a few dollars in outlays in 1983, but you are going to pay some enormous long-range health penalties by that penny-wise, pound-foolish policy. You are going to have sicker people going more often to doctors and being hospitalized. Eating is not a postponable luxury. It is a rather basic, fundamental necessity. I just don't understand that kind of penny-wise, pound-foolish judgmental call.

Secretary BLOCK. Senator, it is a judgmental call. There are any number of good and valuable and useful programs where money could be spent. But, in this administration and this government, we have a responsibility. You can hear many people talk about where we should spend more money. But, at the same time several of those people who are saying that are also saying we should balance the budget and we should cut back the cost of government. It puts us all in a serious dilemma, the Congress as well as the Secretary of Agriculture. We are all well aware there are a lot of judgment calls. We have come down on the side we thought we should. It is understandable someone may come down on another.

Senator EAGLETON. Thank you, Mr. Chairman.

Senator **Cochran**. Thank you.

Mr. Secretary, we appreciate very much your being here today and the way in which you responded to the committee's questions.

OUTLOOK FOR AGRICULTURE

I do want to point out that we have a statement from Dr. Lesher on the outlook for agriculture in the next year, which we will make a part of the record. There are a couple of statements in the summary of that, which are interesting and may serve as a way to conclude this hearing today.

STRONG EXPORT PROGRAM

I notice that it is predicted that there will be a continued strong export program for agricultural commodities. Although the total dollar value is going to be down a little bit next year from this past year, the total volume of exports of American-produced commodities will be substantially increased. I realize that we are also seeing you, Mr. Secretary, take a personal and very active role in trying to do something about some of the unfair competition that we have seen in the international sales area, particularly with your visits to Geneva to present our side of the story to the European Economic Community. I think that has been very helpful.

In connection with our efforts to open up the markets in Japan, you have been quite successful in getting some specific changes made in policies, procedures, and rules by the Japanese Government to open their markets to American-produced agricultural products and manufactured goods. For that, I think you should be congratulated.

PREPARED STATEMENT

I notice too in Dr. Lesher's report that as a result of the acreage reduction program that you have put in place, commodity prices are likely to strengthen, possibly quite significantly, by early 1983. In addition, there is a long-term outlook—perspective from 2 to 5 years—saying that the income position of farmers and the financial health of the sector should improve significantly. That is encouraging. We hope you are right. Do you think you are?

Dr. **Lesher**. I think so, Senator.

[Dr. Lesher's statement follows:]

PREPARED STATEMENT OF WILLIAM G. LESHER

ASSISTANT SECRETARY FOR ECONOMICS

DEPARTMENT OF AGRICULTURE

Mr. Chairman and Subcommittee members, it is a pleasure to appear before you today. As in the past, this testimony covers in detail a broad range of subjects concerning the agricultural outlook. I am submitting a detailed account for the record, and in this statement I shall discuss the major issues facing the agricultural sector today.

As the outlook for 1982 comes into focus, American agriculture continues to make unprecedented contributions to the rest of the economy. Broadly defined, agriculture is the Nation's biggest industry with assets equal to about 88 percent of the capital assets of all U.S. manufacturing corporations. Agriculture also is the Nation's largest employer. Economic activity in the U.S. food and fiber system requires the services of more than 23 million people, or about 22 percent of the labor force. Farming alone requires 3.7 million workers—as many as the combined workforce of the transportation, steel and automobile industries. One out of every five jobs in private enterprise is related to American agriculture.

Agriculture's impact on the entire economy is highly significant. The value added to farm products as they flow through the economic system amounts to 20 percent of the Gross National Product. Agricultural output has increased more than 70 percent since 1950 while total input use increased less than 4 percent. Today's farmer provides food and fiber for 60 people; 60 years ago, one farmer supplied only 10 of his fellow Americans with food of a lesser quality and variety. Few resources are as important to the strength of this country as the farmers who work American soil—the most precious natural resource of all.

The condition of the farm sector is obviously a vital concern. Yet at a time when agriculture is making record contributions to the national economy, the U.S. farm sector faces difficult financial prospects in the year ahead. The many global forces involved reflect the reality that as U.S. agriculture has become more dependent upon world markets, it has coincidentally become more vulnerable to fluctuations in the marketplace. These forces include interest rates, exchange rates, political instability, inflation, unemployment, lagging productivity, budget and trade deficits; it is important to examine some of them to understand the overall state of the U.S. agricultural economy.

In 1981, the United States had record overall crop and livestock production. Excellent weather and growing conditions led to record or near-record yields for the major crops. Acreage increased as well, due in part to attempts by farmers to ease worsening cash flow problems by farming more acres. Supplies of red meat, poultry and dairy products available for ues in 1981 also were the largest on record, although growth in livestock products was less than in the crop sector.

Thus, we have a situation with record supplies available—but with a weakening demand picture. Growth in domestic demand for agricultural products in 1981/82 is being limited to less than 1.5 percent due to stagnating per capita incomes, growing unemployment and high interest rates. The sluggish outlook for the livestock sector translates into weak feed demand and further dampens crop use prospects in the year ahead.

Worldwide economic growth also has been poor. Global growth rates in 1981 lagged at 2.1 percent, and growth prospects for 1982 are forecast at under 3 percent. Growth at these rates leaves little, if any margin for improvements in per capita incomes. By comparison, world economic growth in the 1960's and 1970's averaged 4-5 percent, annually. The current global slowdown has resulted in weakened demand for agricultural products in general, and imported U.S. products in particular. Foreign production also has increased due to good weather and expanded area. The centrally planned economies also have suffered lower growth rates due in part to lagging labor and capital productivity, high levels of external debt and uncertainties in Poland. Growth rates in the lower income developing countries averaged nearly 5 percent in the last decade, while in 1981 and 1982, it is estimated at only 2.8 percent.

The substantial rise in the value of the U.S. dollar also has been a critical factor. U.S. dollars now cost foreign producers 30 percent more than a year ago, and the dollar's appreciation has even wider effects through its impact on other products purchased with U.S. currency, including OPEC oil.

Despite the weakened foreign picture, American farmers are supplying a record volume of high quality food, feed, and fiber to the world. The volume of farm product exports also is record large. Agriculture's 1981 trade surplus of nearly $27 billion offset almost half of the country's petroleum trade deficit, and the 1982 surplus could be as large.

Yet, farm incomes and the financial position of many in agriculture have deteriorated due to a tightening cost-price squeeze that is likely to continue through the spring, despite these sizeable contributions to both the U.S. and world economies.

The cost-price squeeze currently depressing farm income dates back to early 1980, but it has worsened since last summer. A combination of bearish supply and demand factors here and abroad have depressed already weak commodity prices. Farm-level prices for soybeans, corn, and cotton are now, respectively, 20, 25, and 30 percent below year-ago levels.

Rising prices for a broad range of farm inputs--such as energy, energy-related inputs, and capital--have kept production expenses at record levels, although current 1982 forecasts indicate the rise in production expenses could be held to 5 percent or less. Still, with the margin between receipts and expenses likely to narrow over the next 6 months, many farmers will have to postpone scheduled plans for buying equipment or expanding existing operations.

Given the initially weak financial position of many farmers at the start of 1982, the deteriorating income situation is likely to have broader and longer-term implications. Many farmers already have faced 2 years of depressed income as rising production expenses outstripped growing receipts.

Prices received by farmers for their products have increased less than 5 percent since 1979, while prices paid for inputs have increased more than 20 percent. A third year of limited cash flow in 1982 could translate into a more fundamental problem with serious implications for the financial health of a number of farmers carrying large debt loads.

Assuredly, agriculture and economic developments in 1982 are likely to be dramatic, and the year could easily be one of marked contrasts. Markets through the first half of the year are likely to remain under pressure from the large commodity supplies and lagging world economic activity. However, available supplies of most commodities are not burdensome by historical standards. World grain stocks at the end of the 1981/82 season will total about 14 percent of annual usage compared to 19 percent during the period of larger supplies in the late 1960's. These stocks could easily be reduced by adverse weather or rapid improvement in economic conditions as the past few years have demonstrated. The livestock sector already is beginning to benefit from an improved price picture. The second half of 1982 does hold promise, and renewed global economic growth hopefully will provide a stimulus to demand.

The economic condition of the farm sector clearly is subject to many forces beyond its control. Through the Agriculture and Food Act of 1981, we now have programs and operational latitude to better protect American agriculture from market volatility, but the legislation itself is not an instant or long-term panacea for all problems facing the American farmer today. We are doing everything in our power to provide a sustainable improvement in economic conditions in the farm sector, and we shall continue this effort. However, the immediate prospects, as you know, are not highly optimistic.

A number of factors will be critical in 1982. These are illustrated in detail in the segment of testimony submitted for the record.

—Increases in 1981 cash receipts came mostly from crops. Many uncertainties underlie the cash receipts outlook, including the size of 1982 U.S. crops which will be largely determined by weather and voluntary acreage reduction participation rates.

—Production expenses are expected to rise only moderately, although energy and related input prices will probably show the smallest increases since 1977 because of slack demand and large supplies.

—Exports of U.S. farm products are projected at $42-1/2 billion, slightly below last year's record. Japan, Western Europe and Canada, combined, will again take nearly half of all U.S. agricultural exports on a dollar basis. A turnaround in world economic conditions is a key ingredient in expanding world markets.

—The Soviet Union had a poor grain harvest in 1981 for the third successive year, and utilization likely will fall to the lowest level since 1975/76. The 1981 crop is the smallest since 1975 and more than 60 million tons below plan. Official Soviet estimates have been withheld for some time, raising questions about the final output figure. Even with good crops in 1982, the USSR will be a significant player in world markets for several years.

—Record world grain production is projected in 1981/82 with record harvests of wheat, coarse grains and rice. World grain utilization is expected to show only a modest gain, limited by poor harvests in several countries and weak demand for livestock products. Stocks are expected to increase substantially in the United States and will weigh heavily on the market in the near term.

—World production of major oilseeds will be near the record reached in 1979/80. Soybeans account for more than half the expansion; most of the gain is in the United States. World soybean use will not match the increased output, causing stocks to build to near the record reached at the beginning of 1980/81. Southern Hemisphere crop developments and renewed demand in Western Europe are significant factors in these markets.

—World meat output may show another small gain in 1982 with most of the increase coming from poultry. Even with slight increases in total meat production in the last few years, per capita consumption has dropped because the increased output has failed to keep pace with population growth. Economic growth is the greatest stimulus to meat consumption and thus, indirectly, to increased grain utilization. A more prosperous world economy could turn both markets around.

—Record production, relatively weak demand, sharply rising stocks and lower prices highlight the cotton situation. An improved supply-demand balance is expected for 1982/83, but stocks are expected to remain large.

--World sugar production is estimated to be sharply above last season's poor level. Stocks are expected to *increase by nearly a fifth* by the end of the season. U.S. sugar use has declined dramatically in the past decade due to increased use of high fructose corn syrup.

--Retail food prices in the United States in 1981 averaged 7.9 percent higher, down from an 8.6 percent rise the previous year. The share of expenditures for food in the United States continues to be smaller than in other countries.

In the longer-term perspective of 2-5 years, the income position of farmers and the financial health of the sector should improve significantly. The Agriculture and Food Act of 1981 and Secretary Block's recent announcement of voluntary acreage reduction programs for the 1982 crops of wheat, feed grains, cotton, and rice should help ease the current supply problem by next fall. Market factors here and abroad which are depressing commodity demand also should become a source of strength later this year, pointing to economic recovery in the United States and the major importing countries. As a result, commodity prices are likely to strengthen--possibly quite significantly--by early 1983. In the livestock sector, where prices have already strengthened recently, cutbacks in supplies coupled with demand enhanced by economic recovery and the tax cut, should provide further improvement in prices. Moreover, easing inflation over the next year should slow increases in production costs and improve farmers' income.

In summary, Mr. Chairman, the income position of farmers and the financial health of the sector must and will improve significantly in the longer-term perspective. This Nation's agriculture has a comparative advantage to the rest of the world, both in natural and manpower resources--an advantage which must be retained. While ensuring the economic viability of the Nation's farmers, it is essential that we protect and enhance our resource base through effective soil and water programs which provide necessary incentives for proper, long-term management. Agricultural research must be accelerated to ensure the most effective and efficient use of these resources. Agricultural productivity has long been a cornerstone of U.S. growth, and if our economy is to stay strong, agriculture must continue to be prosperous.

The American farmer has demonstrated a unique capability to produce well in excess of domestic needs. As a result, the strength of the farm economy increasingly has become a function of world markets. Secretary Block and I are committed to providing greater market access for U.S. products and enhancing our competitive posture in the world marketplace. To protect existing markets while seeking new ones, we must reassure the world that we are reliable suppliers. The new farm legislation provides the means to move agriculture closer to the marketplace. Yet, to prosper, our farmers must learn marketing skills equal to those they possess as producers; we are committed to assisting them in this transition. The world marketplace must remain open to our products to protect the economic strength and competitive ability of our farmers.

Thank you for this opportunity to review the agricultural outlook. I will be happy to answer any questions you may have.

Farm Income and Finance

- Economic conditions in agriculture have not been good for farmers during the past 2 years. In 1981, prices received by U.S. farmers averaged 3 percent higher than in 1980. However, record agricultural production and weakening domestic and world demand depressed farm prices throughout the year. Farm prices in December 1981 were 12 percent below a year earlier and 2 percent below Deceember 1979. In contrast, prices paid by farmers rose more than 8 percent--the second consecutive year in which prices paid outgained prices received by farmers. However, the rate of increase in prices paid slowed markedly in 1981.

- Net farm income, including inventories, increased an estimated 15 percent in 1981 as record farm output caused a buildup in farm commodity inventories which was responsible for all of the gain in income. Gross farm income increased about 5 percent, but this gain was offset by an estimated increase in production expenses of about 8 percent.

- Increases in 1981 cash receipts came mostly from crops as livestock receipts rose only 2 percent and remained near 1979 levels. Crop receipts rose about 7 percent on the strength of larger marketings in the second half of the year and strong prices during the first half of 1981.

- Many uncertainties underlie the cash receipts outlook, and the current picture could change significantly. These uncertainties include: the strength of domestic and world demand for agricultural products; the speed and strength of the expected economic recovery; interest rates; the impact of the farmer-owned reserve on free stocks and prices; development of foreign crops; and the size of the 1982 U.S. crop which will be determined largely by weather, and voluntary acreage reduction participation rates.

- Production expenses are expected to rise only moderately this year. Outlays for farm origin inputs (feed, feeder livestock, and seed) are expected to increase more slowly than those for manufactured and other inputs. Energy and related input prices will probably show the smallest increases since 1977 because of slack demand and large supplies. Interest expenses, which have increased in importance the past few years, are expected to continue to rise as interest rates remain high and farm debt further increases. The share of total expenses attributed to interest charges is running nearly double that of a decade ago.

- Even with an easing in the rate of increase in production expenses in 1982, the rate likely will exceed the gain in cash receipts, keeping farm income at reduced levels. Larger Government payments will supplement farm income through the first half of the year as large supplies continue to dampen price increases. Strengthening farm income is in prospect for the second half as the economy improves and new crop developments begin to unfold.

- Interest rates on new farm loans increased substantially in 1981. Production Credit Associations charged an average 14.46 percent on new operating loans, up from 12.74 percent in 1980. Federal Land Bank rates averaged 11.27 percent in 1981 compared with 10.39 percent in 1980.

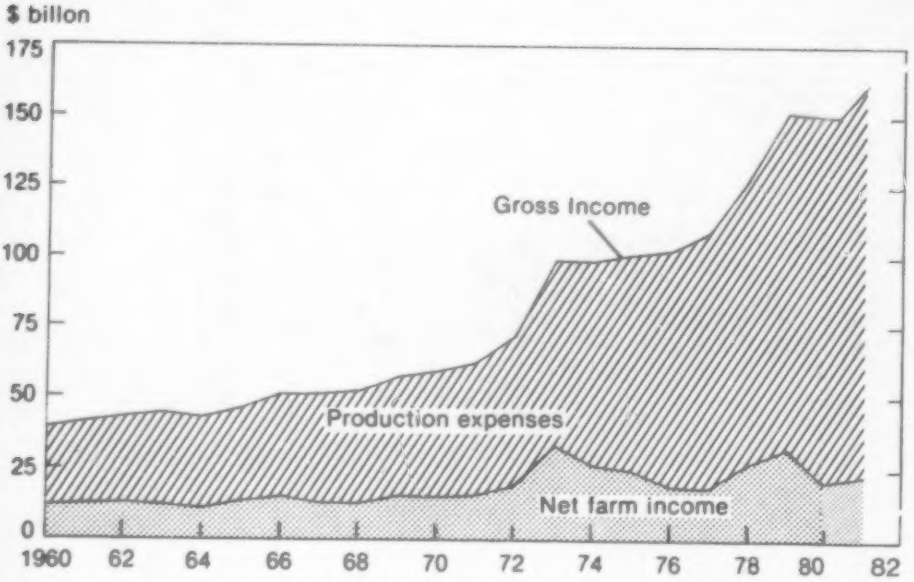
- Total farm debt was estimated at $194.5 billion on January 1, 1982, up more than 11 percent from 1981. Real estate and nonreal estate debt (including CCC debt) rose 12 and 10 percent, respectively. The value of total farm assets rose about 8 percent to $1,176.5 billion, with real estate and nonreal estate assets both up.

- In real terms, the value of farm real estate assets declined in 1981 for the second straight year, reflecting low farm incomes and high interest rates. In addition, the debt-to-asset ratio, although low in comparison to many sectors of the economy, increased for the third straight year in 1981.

- Equity per farm increased more slowly in the last 2 years as the rise in farm land values slowed and net farm incomes fell. In constant dollars, farm equity declined in 1980 and 1981 as inflation outpaced equity gains.

- Total farm family income in 1981 likely was the second highest on record. Income from farm sources increased modestly in 1981 after falling sharply the previous year from the record 1979 income. Off-farm income rose in 1980 and 1981, continuing to increase in importance in total farm family income.

Aggregate Farm Income



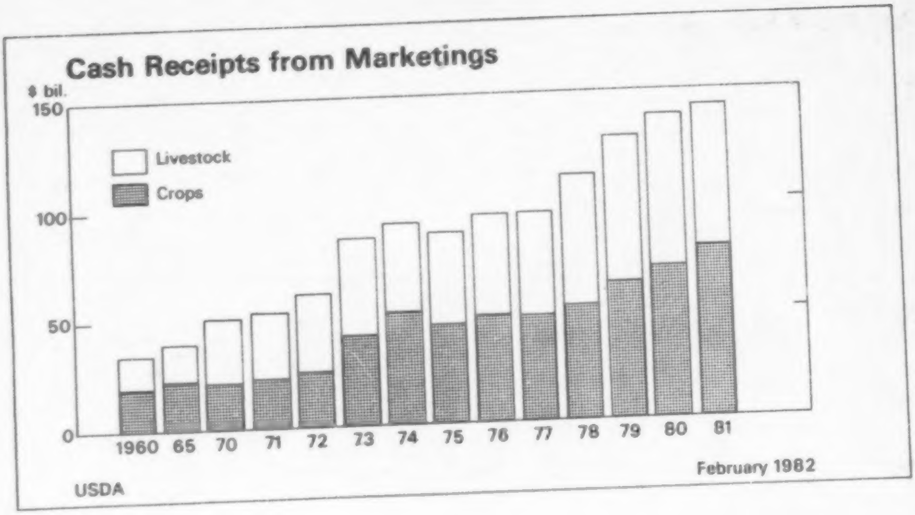
1982 Forecast

February 1982

Net Farm Income 1/

Item	1965	1970	1975	1977	1978	1979	1980	1981
			– – – Billion dollars – – –					
Gross income	46.5	58.6	100.3	108.7	127.5	151.9	150.5	164.4
Expenses	33.7	44.4	75.9	90.3	101.1	119.2	130.7	141.5
Net farm income	12.9	14.1	24.5	18.4	26.5	32.7	19.9	22.9

1/ Calendar year

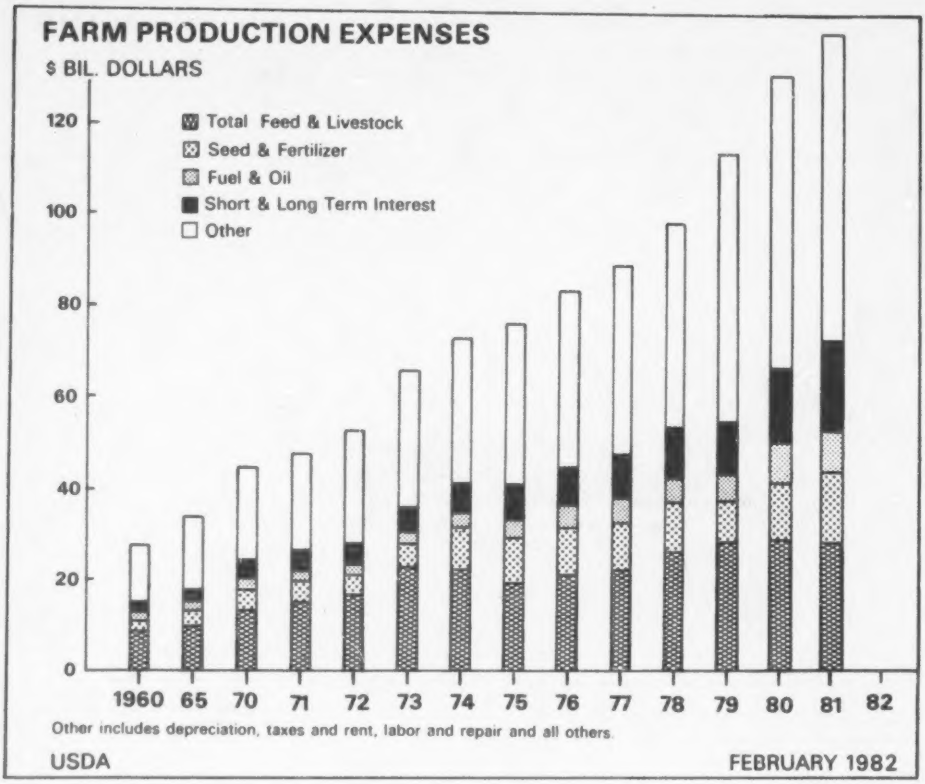


Cash Receipts from Marketings

Cash Receipts from Farm Marketings 1/

Item	1965	1970	1975	1977	1979	1980	1981
			- - - Billion dollars - - -				
Livestock	21.9	29.6	43.1	47.6	68.5	67.4	68.8
Crops	17.5	21.0	45.2	48.7	63.4	69.0	73.7
Total	39.4	50.5	88.2	95.3	131.9	136.4	142.5

1/ Calendar year.



FARM PRODUCTION EXPENSES

Other includes depreciation, taxes and rent, labor and repair and all others.

USDA

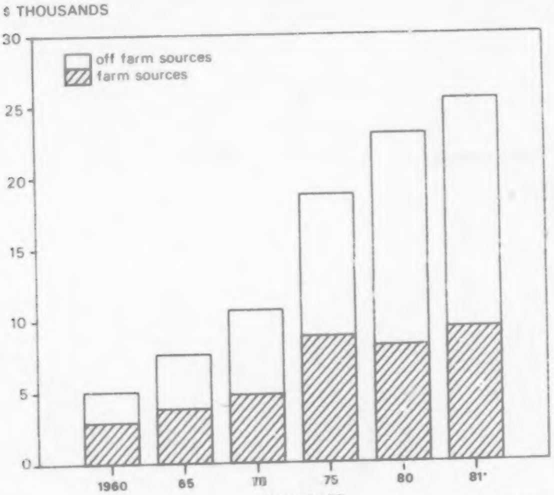
FEBRUARY 1982

Farm Production Expenses

Item	1970	1975	1977	1979	1980	1981
			- - - Billion dollars - - -			
Feed and livestock purchased, total	12.3	17.6	21.0	29.7	29.0	28.9
Seed & fertilizer, total	3.2	8.5	8.9	9.9	12.8	14.5
Fertilizer	2.3	6.2	6.0	6.5	8.9	9.8
Fuels and oils	1.7	3.3	4.4	6.3	8.2	9.4
Short & long term interest	3.4	6.4	8.3	12.8	15.8	18.9
Taxes and rent	4.7	7.9	8.0	9.6	9.9	10.3
Depreciation	6.8	12.6	15.3	18.9	21.8	23.5
Other 1/	12.3	19.5	24.3	31.9	33.2	36.2
Total production expenses	44.4	75.9	90.3	119.2	130.7	141.5

1/ Other expenses includes hired labor, repair and all other expenses.

INCOME PER FARM



*FORECAST

USDA

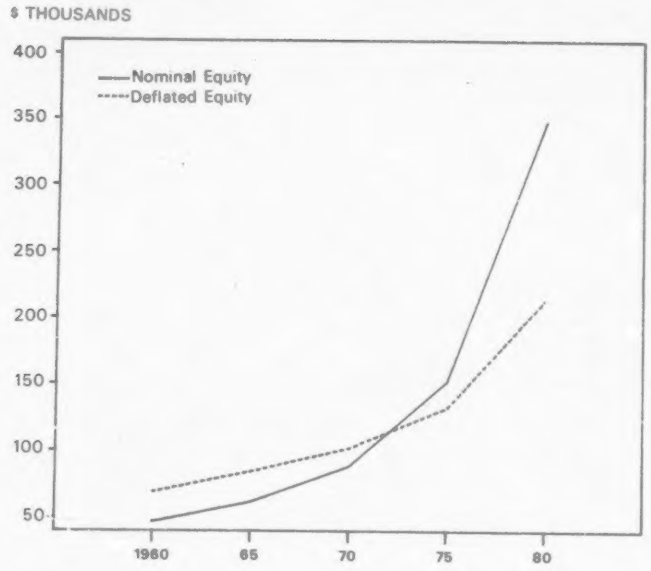
FEBRUARY 1982

Income Per Farm, All Sources

Item	1960	1965	1970	1975	1977	1978	1979	1980	1981 1/
	---Dollars---								
Income per farm:									
Farm sources	2,907	3,843	4,799	8,845	7,489	10,861	13,456	8,180	9,401
Off-farm sources	2,140	3,792	5,899	9,922	10,313	11,533	13,667	14,820	16,010
Total	5,047	7,636	10,698	18,767	17,802	22,394	27,123	23,000	25,411
Percent off-farm	42.4	49.7	5.1	52.9	57.9	51.5	50.4	63.1	63.0

1/ Forecast.

EQUITY PER FARM



USDA

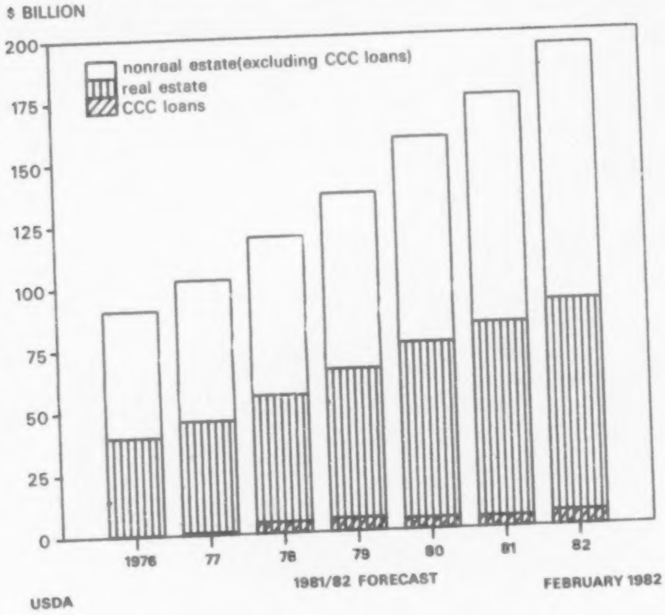
FEBRUARY 1982

Farm Balance Sheet (Calendar Years)

Item	1960	1965	1970	1975	1977	1978	1979	1980	1981
					---Billion dollars---				
Assets (Jan. 1)	210.2	243.8	314.9	503.8	664.0	737.1	872.9	1,004.4	1,090.3
Real estate	137.2	167.5	215.8	359.8	496.4	554.6	655.1	756.2	828.7
Other	73.0	76.3	99.1	144.0	167.6	182.5	217.8	248.2	261.6
Liabilities	24.8	36.8	53.0	81.8	102.6	119.3	136.1	157.9	174.5
Real estate	12.0	18.9	29.2	46.3	56.6	63.7	70.8	82.7	92.0
Other	12.8	17.9	23.8	35.5	46.0	55.6	65.3	75.2	82.5
Equity	185.4	207.0	261.9	421.9	561.4	617.8	736.8	846.5	915.7
					---Dollars---				
(Current Dollars)									
Nominal equity per farm	46,783	61,681	88,810	152,476	228,583	253,613	303,210	348,641	375,903
Deflated equity per farm: 1972=100 1/	69,206	84,762	102,327	132,680	173,025	181,372	202,073	214,192	211,896

1/ Deflated by the GNP implicit deflator for the previous year.

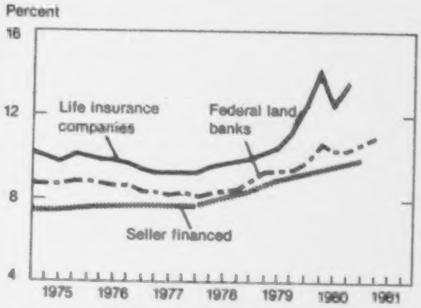
COMPOSITION OF U.S. FARM DEBT



Total U.S. Farm Debt (Calendar Years)

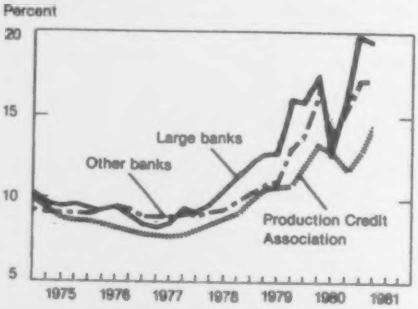
Item	1976	1977	1978	1979	1980	1981	1982
	- - - Billion dollars - - -						
Farm debt outstanding on Jan. 1:							
Real estate	51.1	56.6	63.7	70.8	82.7	92.0	103.4
Nonreal estate (exclulding CCC loans)	39.4	45.0	51.1	60.0	70.7	78.2	85.4
Commodity Credit Corporation loans	.3	1.0	4.5	5.3	4.5	4.4	5.7
Total farm debt	90.8	102.6	119.3	136.1	157.9	174.5	194.5

Interest Rates on Farm Real Estate Loans



Quarterly data life insurance companies (new commitments) and Federal Land Banks (new loans). Semiannual data for seller financed, annual beginning in 1980. Federal Land Bank rates do not include charge for the stock borrowers are required to buy.

Interest Rates on Farm Nonreal Estate Loans



Rates on PCA loans include service fees. Bank data starting in 1977 are from surveys made by the Federal Reserve System; data for prior years relate to different groupings of banks, collected by the Federal Reserve System and the Federal Reserve Bank of Minneapolis.

Yearly Average Interest Rates on New Farm Loans*

Item	1970	1975	1976	1977	1978	1979	1980	Preliminary 1981
Nonreal estimate	8.89	9.25	8.87	8.46	9.47	11.82	14.53	17.48
Production Credit Assn.	9.45	9.13	8.35	7.90	8.75	10.58	12.74	14.46
Large banks	NA	9.60	9.13	8.55	10.25	13.60	15.90	19.78
Other banks	8.33	9.03	9.13	8.93	9.40	11.28	14.95	18.20
Real estate	9.01	8.79	8.73	8.49	8.64	9.41	10.95	11.85
Seller financed	NA	7.60	7.70	7.80	7.95	8.50	9.10	9.80 1/
Federal land banks	8.68	8.73	8.68	8.35	8.38	9.20	10.39	11.27
Life insurance companies	9.33	10.03	9.80	9.33	9.58	10.53	13.35	14.49 2/

*Arithmetic average, not weighted.

1/ First quarter reading only; series dropped.
2/ Average of first two quarters due to data availability.

Aggregate Output and Prices

- U.S. farm output reached a record in 1981, exceeding 1980's reduced level by 9 percent and 1979's peak by 3. New highs were achieved for both crops and livestock, although most of the output gain came from crops.

- U.S. crop output rebounded in 1981, rising nearly 15 percent from the drought-reduced 1980 level and surpassing the 1979 high by 4 percent. Weather favored crops and most of the production rise came from higher yields. Livestock output managed a modest 2-percent rise, although poor producer returns kept pork production 4-1/2 percent below 1980. Broiler production rose more than 5-1/2 percent, while beef output was up nearly 3-1/2.

- Growth in farm output in 1981 continued to outpace the nonfarm sector. Rising farm output has been obtained with only modest increases in inputs. Farm output per man-hour increased 6-1/2 percent in 1981, well above the 1967-80 trend of about 3-1/2 percent per year, while the nonfarm business output per man-hour increase of 1-1/2 percent was slightly above the trend of around 1 percent.

- Acreage planted to major U.S. crops increased around 3 percent in 1981, mainly due to large wheat plantings and more double-cropping in southern areas. U.S. crop acreage has expanded nearly one-third since 1970, responding to climbing world needs for food and fiber.

- Acreage planted to 1982 crops is expected to decline. Large 1981 crops, coupled with weak demand in many countries, are causing a sharp buildup in U.S. crop stocks. To better bring supplies into balance with use during 1982/83 and strengthen prices, voluntary reduced acreage programs for grains and cotton have been announced for 1982. Benefits available under the programs are expected to encourage producer participation to reduce acreage for wheat, rice, feedgrains and cotton.

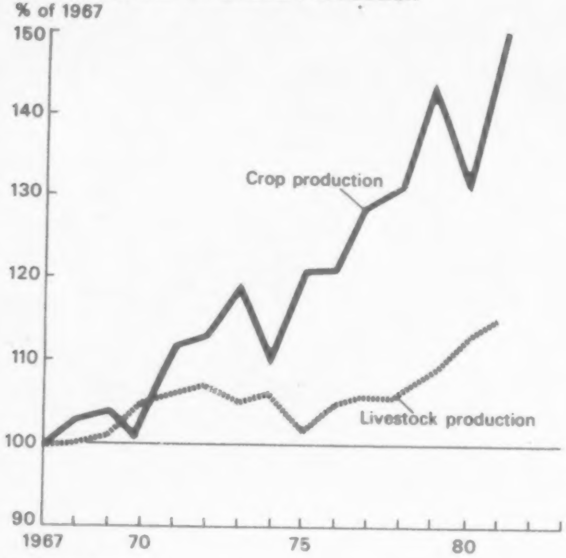
- Prices received by U.S. farmers in 1981 averaged 3 percent above the 1980 level, with 7-percent higher average crop prices more than offsetting 1-1/2 percent lower livestock prices. Crop prices last January were well above those of the previous year, but trended downward as large 1981 crops developed and demand weakened.

- Prices paid for inputs by farmers slowed to an 8-percent gain in 1981, down from 12 percent in 1980, although more than double the increase in prices received. Prices paid for fertilizer and fuels and energy slowed dramatically in 1981; still, prices for fuel continued to outpace the average increase of other inputs, as did interest rates.

- Farm prices during the first half of 1982 will be under pressure from relatively large supplies, and sluggish demand likely will keep pressure on prices. Second half prices should benefit from an economic recovery here and abroad, as well as the U.S. income tax cut, smaller crop supplies due to smaller U.S. acreage, and declining U.S. livestock production. The declines in livestock output will reflect a further reduction in pork output, about the same level of beef output and slower increases in broiler production. Prices paid by farmers are expected to rise only moderately in 1982 with a slowing in the general inflation.

- World economic activity in 1982 is expected to recover from 1981's disappointing performance, particularly in developed market countries. Europe should rebound in response to rising export sales and a small advance in consumption and investment. Japan's growth is forecast to recover. The U.S. economy is expected to recover in the second half of 1982. Many developing countries, while still lagging, should benefit from relatively large petroleum supplies.

U.S. Crop and Livestock Production



Latest year forecast.

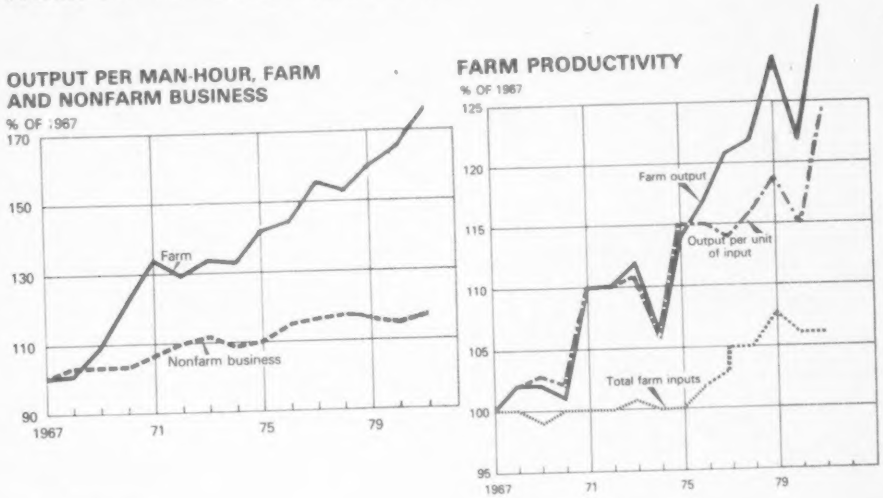
USDA

February 1982

U.S. Crop and Livestock Production

Item	1970	1975	1976	1977	1978	1979	1980	1981
			- - - Percent of 1967 - - -					
Farm output	101	114	117	119	122	129	122	133
Crops	101	121	121	129	131	144	131	150
Livestock	105	101	105	106	106	109	113	115

FARM OUTPUT AND PRODUCTIVITY



1981 PRELIMINARY

USDA

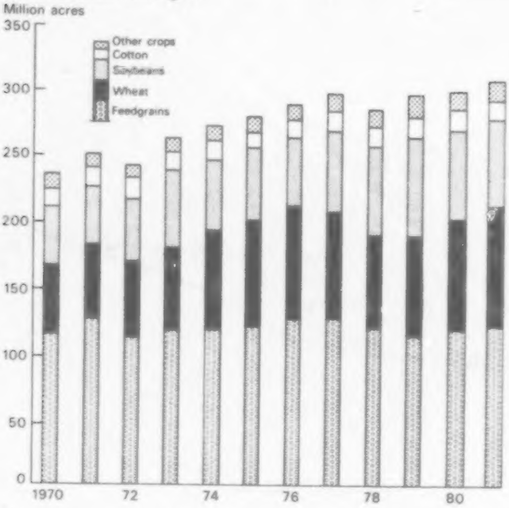
FEBRUARY 1982

Farm Output and Productivity

Item	1975	1976	1977	1978	1979	1980	1981 1/
	Percent of 1967						
Farm output	114	117	119	122	129	122	133
Crop	121	121	129	131	144	131	150
Livestock	101	105	106	106	109	113	115
Farm inputs	100	103	105	105	108	106	106
Output per man-hour:							
Farm	143	144	156	153	160	166	177
Nonfarm business	111	114	116	117	116	115	117

1/ Preliminary.

U.S. Planted Acreages



Other includes rice, sunflowers, rye, flaxseed, dry edible beans, sugarbeets, and sugarcane.

USDA

February 1982

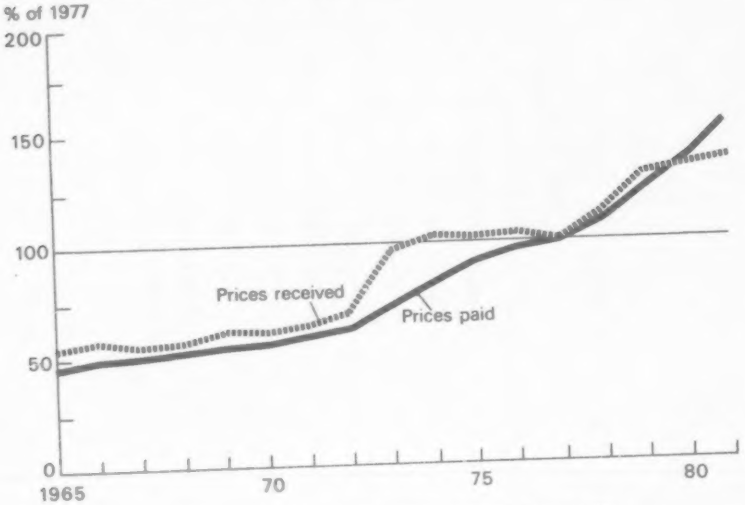
U.S. Planted Acreages

Item	1970	1975	1976	1977	1978	1979	1980	1981
	---Million acres---							
Feedgrains	118.8	122.6	128.6	129.4	124.3	118.8	121.3	123.5
Wheat	48.7	74.9	80.4	75.4	66.0	71.4	80.6	88.9
Soybeans	43.1	54.6	50.3	59.0	64.7	71.6	70.0	68.1
Cotton	11.9	9.5	11.6	13.7	13.4	14.0	14.5	14.3
Other crops	9.8	10.3	9.0	10.3	11.1	15.6	13.7	15.3
Major crop plantings, total 1/	232.3	271.9	279.9	287.8	279.5	291.4	300.1	310.1
Set-aside & diverted	57.1	2.4	2.1	1.0	17.0	11.8 2/	---	---

1/ Includes corn, sorghum, barley, oats, wheat, soybeans, cotton, rice, sunflowers, rye, flaxseed, dry edible beans, sugarbeets, and sugarcane.

2/ Does not include 1.2 million acres of wheat in special grazing and hay program in 1978 and an estimated 0.9 million in 1979.

Prices Received and Paid by Farmers



Prices paid includes commodities and services, interest, taxes, and wage rates.

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Prices Received and Paid by Farmers

	1973	1974	1975	1976	1977	1978	1979	1980	1981
				Percent of 1977					
Prices received (all commodities)	98	105	101	102	100	115	132	134	138
Crops	91	117	105	102	100	106	116	125	134
Livestock products	104	94	98	101	100	124	147	144	142
Prices paid	71	81	89	95	100	108	123	139	150
Wage rates	69	79	85	93	100	107	117	127	136
Machinery 1/	58	68	82	91	100	109	122	136	152
Energy and Fuels	57	79	88	93	100	105	137	188	213
Fertilizer	56	92	120	102	100	100	108	134	144

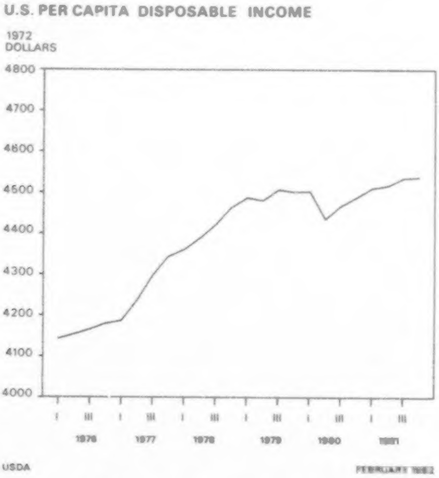
1/ Tractors and self-propelled machinery.

World Economic Indicators

Country/area	Change in real gross national product		Change in consumer price index	
	1980	Preliminary 1981	1980	Preliminary 1981
	- - - Percent - - -			
United States	-0.1	1.9	13.5	10.3
USSR	3.8	3.5	---	---
East Europe	1.4	0.0	---	---
EC-9	1.0	0.0	11.8	10.0
Japan	5.0	5.0	7.7	5.5
Canada	0.6	2.8	10.7	12.0
Australia	2.8	3.5	10.2	9.5
South Africa	7.9	4.9	14.0	15.0
Brazil	8.0	5.0	110.0	77.0
Argentina	0.0	-3.0	88.0	150.0
India	7.5	4.0	17.2	12.0
LDC's:				
Asia	5.4	5.0	16.1	15.0
Latin America	5.8	5.5	56.0	45.0
OPEC	-3.9	---	17.0	20.7
OECD	1.0	1.3	11.3	11.0

Source: Consensus Forecasts in early 1982.

--- = Not available.



Per Capita Disposable Income
(Real 1972 Dollars)

Item	1976	1977	1978	1979	1980	1981 1/
Per capita Disposable income:	4,161	4,266	4,409	4,493	4,473	4,519

1/ Preliminary.

U.S. Agricultural Exports

- Exports of U.S. farm products are projected at $42-1/2 billion, slightly below last year's record level of $43.8 billion. The developed market economies of Japan, Western Europe, and Canada combined will again take nearly half of all U.S. agricultural exports on a dollar basis in 1981/82. African and Latin American nations will account for more than a fifth of U.S. farm exports and Asia (excluding Japan and China) about 18 percent, as compared with 16 percent in fiscal 1981.

- Export volume is expected to reach between 168 and 170 million tons in 1981/82, exceeding last year's 163 million. Grains make up about 70 percent of U.S. agricultural export volume. Oilseeds and products remain the second largest component of U.S. export volume.

- The U.S. share of total world grain trade is expected to hold at the 1981/82 level of 54 percent while the share of world trade in soybeans may increase slightly from the 1980/81 level. The U.S. share of world cotton exports is projected to recover considerably to the 34 percent level in 1981/82 from the 30 percent level experienced in 1980/81.

- Nearly two-thirds of this year's production of U.S. wheat and more than half of the soybean crop will be exported in 1981/82, along with about one-fifth of feed grain production and 45 percent of cotton output.

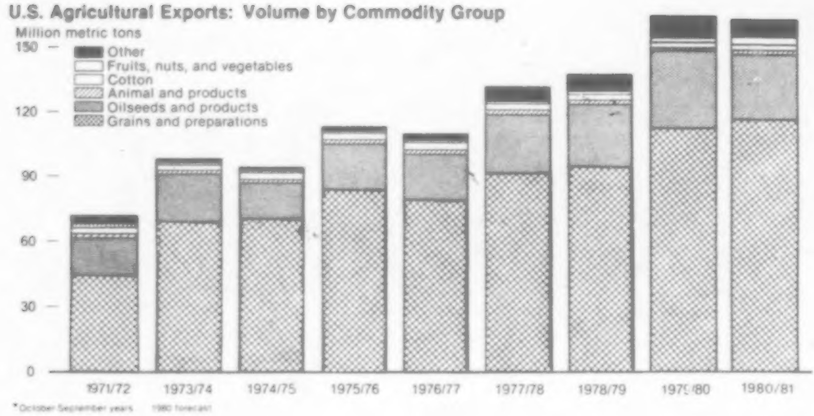
- The agricultural trade balance moved upward again in calendar year 1981, reaching a $26.6-billion surplus compared with a nonagricultural trade deficit of $60 billion. Petroleum remains the main factor in the nonagricultural balance slide that began in 1974.

- The European Community (EC) sharply expanded grain exports during the 1970's and in 1980/81 became a net exporter. The most rapid rise has been for wheat, with forecast 1981/82 exports four times the 1970/71 level. The Common Agricultural Policy (CAP) has insulated EC agriculture through high internal support prices and import protection, resulting in excess production and the subsidization of exports to dispose of surpluses.

- The European Community (EC) has sharply expanded meat exports, becoming a net exporter in 1980. EC exports have benefited from export subsidies.

- Considerable potential exists for further expansion of U.S. agricultural exports, although current or potential trade barriers remain a concern. Japan, for example, limits agricultural imports by quota. The U.S. Government will hold talks later this year on further modification of these restrictions. Elimination of the quotas would be particularly beneficial to U.S. cattle and citrus producers. In the European Community, in addition to the high tariffs on agricultural imports, there are a number of other trade issues where resolution attempts are being made to permit continued access to and growth in U.S. agricultural exports to the EC, particularly for non-grain feeds and vegetable oils and fats.

U.S. Agricultural Exports: Volume by Commodity Group



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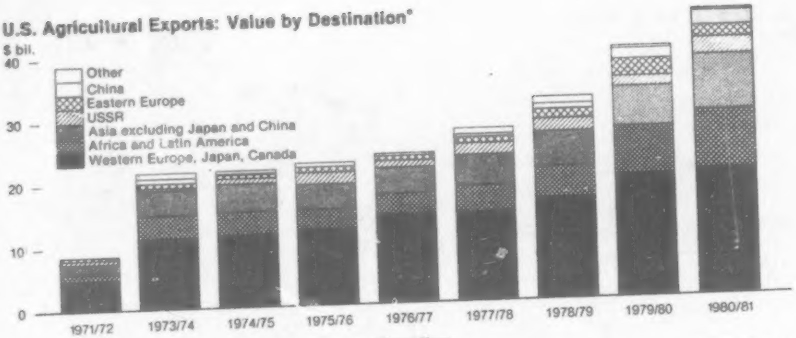
U.S. Agricultural Exports: Volume by Commodity Group

Commodity group 1/	1971/72	1972/73	1973/74	1978/79	1979/80	1980/81	1981/82 2/
			- - - Million metric tons - - -				
Grains & preparations	45.4	78.6	68.8	95.1	112.3	116.6	118.4
Oilseeds & products	15.9	18.8	21.9	29.4	35.1	29.6	32.8
Animals & products	1.4	1.4	1.6	1.8	2.1	2.4	2.4
Fruits, nuts, veg.	2.3	2.4	2.5	2.8	3.0	3.2	3.4
Cotton	.6	1.2	1.2	1.4	2.0	1.3	1.5
Other 3/	3.0	4.2	3.9	7.0	9.4	9.6	10.7
Total	68.6	106.6	99.9	137.5	163.9	162.6	169.2

1/ October-September years.
2/ Forecast.
3/ Includes feed and fodders.


U.S. Agricultural Exports: Value by Destination*

FEBRUARY 1982

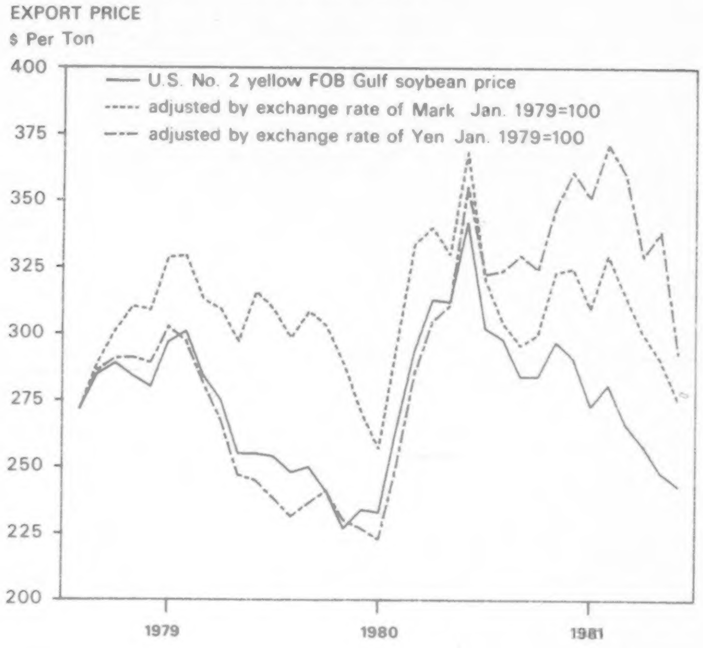
*October-September years, not adjusted for transshipment

U.S. Agricultural Exports: Value by Destination

Destination 1/	1971/72	1972/73	1973/74	1978/79	1979/80	1980/81	1981/82 Forecast
	- - - Billion dollars - - -						
W. Europe, Japan & Canada	5.00	8.45	11.44	16.56	20.11	20.70	20.4
Africa & Latin America	1.05	1.75	3.58	4.91	7.77	9.72	8.7
Asia (excluding Japan & China	1.63	2.43	4.03	5.72	6.50	7.21	7.6
USSR 2/	.27	.96	.34	2.19	1.51	1.71	2.3
Eastern Europe	.24	.46	.68	1.52	2.44	2.05	1.4
China	0	.43	.84	.92	1.96	2.19	1.8
Other	.05	.50	.70	.16	.19	.21	.3
Total	8.24	14.98	21.61	31.98	40.48	43.79	42.5

1/ October-September years; not adjusted for transshipments.
2/ 1980/81 Forecast based on shipment of 8 million tons.

EFFECT OF SELECTED EXCHANGE RATES ON U.S. SOYBEAN EXPORT PRICE



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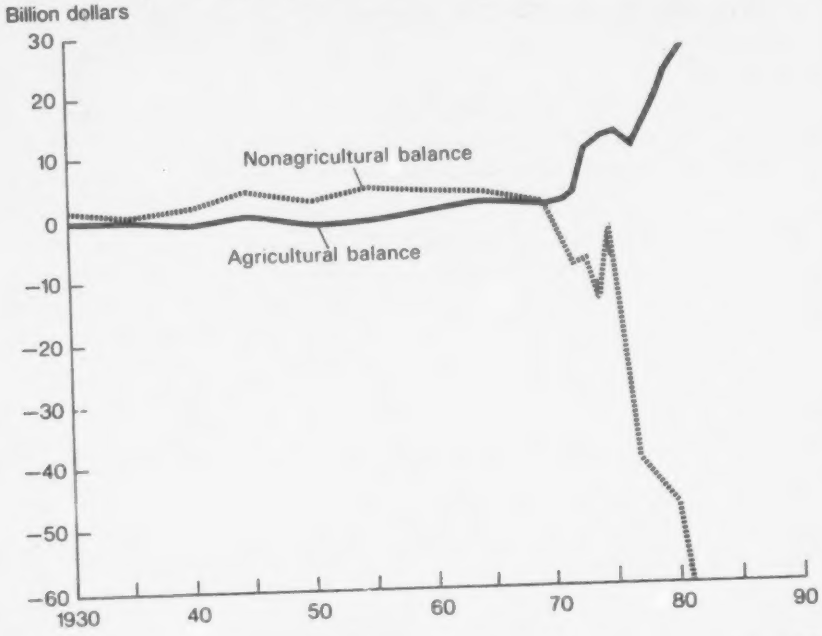
Effect of selected exchange rates on U.S.
soybean export price, annual 1979-1981

Item	Year 1979	1980	1981
F.O.B. Gulf No. 2 Yellow Soybean Price	278	272	272
Gulf Price Adjusted by the Exchange Rate of: 1/			
Yen	308	312	304 2/
Mark	276	268	336 3/

1/ Exchange rate index January 1979 equal to 100.
2/ 11-month average.

Agricultural and Nonagricultural Trade Balance



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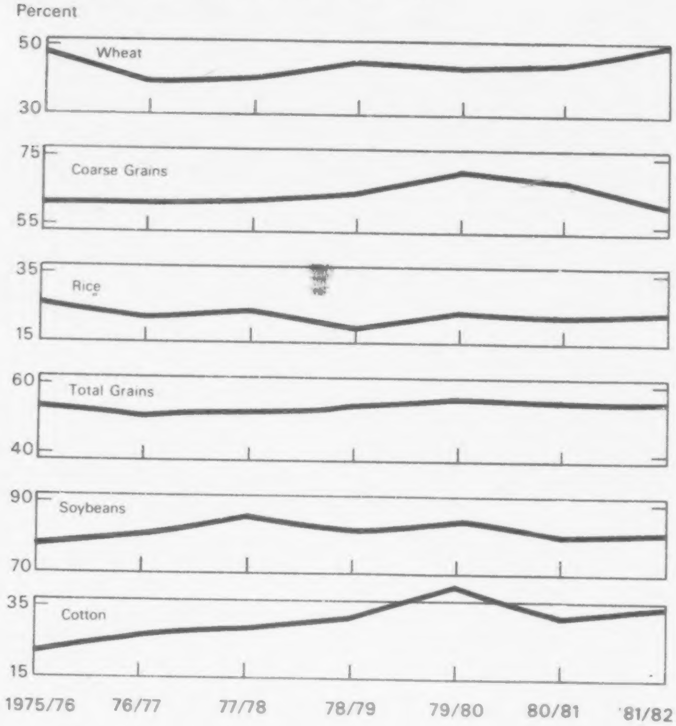
Agricultural and Non-Agricultural Trade Balance
- Calendar Year -

	1930	1940	1950	1960	1970	1975	1976	1977	1979	1980	1981
Agricultural:											
Exports	1.2	.5	2.9	4.8	7.3	21.9	23.0	23.7	34.7	41.3	43.3
Imports	1.5	1.3	4.0	3.8	5.8	9.3	11.0	13.5	16.7	17.4	16.8
Balances:											
Agricultural	-.3	-.8	-1.1	+1.0	+1.5	+12.6	+12.0	+10.2	+18.0	+23.9	+26.6
Nonagricultural	+1.0	+2.1	+2.5	+4.4	+1.3	-2.8	-20.7	-40.0	-46.7	-47.3	-60.0

U.S. Exports as Share of World Trade



1981/82 Forecast

USDA

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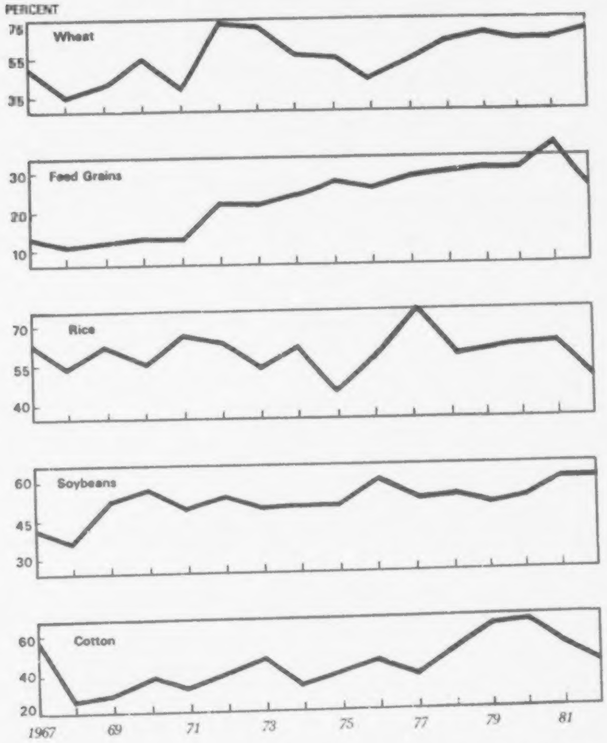
U.S. Exports as Share of World Trade 1/

	1970/71	1975/76	1976/77	1977/78	1979/80	1980/81	Forecast 1981/82
				Percent			
Wheat	36	48	41	43	43	45	49
Coarse grains	42	61	61	62	71	69	60
Rice	19	23	22	24	24	23	25
Total grains	36	53	51	52	56	55	53
Soybeans	62	78	81	86	84	78	79
Cotton	22	17	27	29	40	30	34

1/ Wheat and coarse grains, July-June year, rice, calendar year; soybeans, September-August year; cotton, August-July year.

U.S. EXPORTS AS A SHARE OF U.S. PRODUCTION

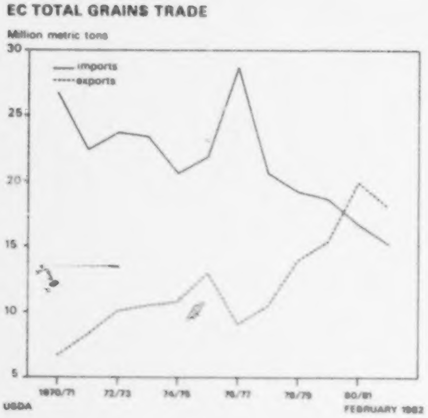


FEBRUARY 1982

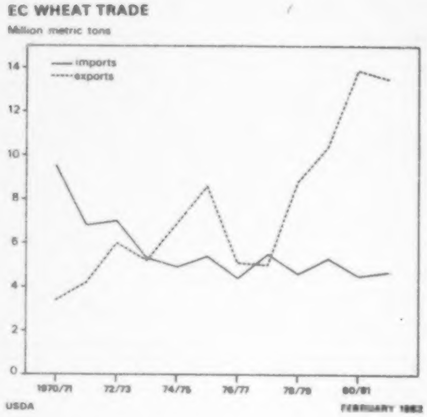
U.S. Exports as a Share of U.S. Production
U.S. Marketing Year 1/

Commodity	1970/71	1975/76	1976/77	1977/78	1979/80	1980/81	Forecast 1981/82
				Percent			
Wheat	54	55	44	55	64	64	64
Feed grains	13	27	26	28	30	35	26
Rice	55	43	56	73	63	63	49
Soybeans 2/	59	50	59	54	53	56	56
Cotton	38	40	45	38	63	53	43

1/ Production is in first year of marketing year.
2/ Exports include soybean equivalent of meal exports.



EC TOTAL GRAINS TRADE



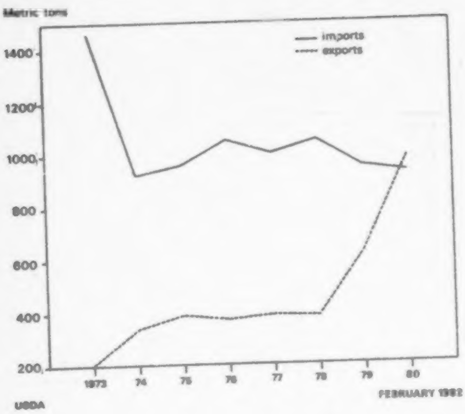
EC WHEAT TRADE

European Community Grains Trade, World Exports, and EC and U.S. Shares 1/

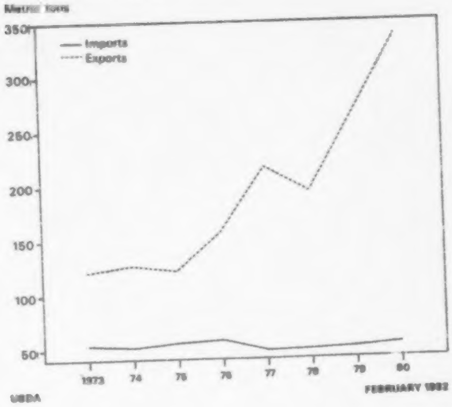
Item	1970/71	1971-75 avg.	1978/79	1979/80	1980/81	1981/82
	---Million metric tons---					
Total grains						
EC imports	26.7	22.4	18.2	18.6	16.7	14.7
EC exports	6.7	10.5	14.0	15.4	19.9	18.0
Total world exports	101.0	126.4	162.1	187.0	199.2	201.7
EC share (pct.)	6.6	8.3	8.6	8.2	10.0	8.9
U.S. share (pct.)	38.9	50.9	55.0	58.2	57.4	54.7
Wheat						
EC imports	9.5	5.9	4.6	5.3	4.5	4.7
EC exports	3.4	6.2	8.8	10.4	13.9	13.5
Total world exports	55.0	62.5	72.0	86.1	93.7	100.0
EC share (pct.)	6.2	9.9	12.2	12.1	14.8	13.5
U.S. share (pct.)	36.2	44.8	44.9	43.2	44.7	48.9
Coarse grains						
EC imports	17.2	16.5	14.5	13.4	12.2	10.0
EC exports	3.3	4.4	5.3	5.0	6.0	4.5
Total world exports	46.0	63.9	90.1	101.0	105.5	101.7
EC share (pct.)	7.2	6.9	5.9	5.0	5.7	4.4
U.S. share (pct.)	42.2	56.8	63.2	70.9	68.6	60.5

1/ Total grains includes wheat and coarse grains; excludes intra-EC trade.

EC MEAT TRADE



EC POULTRY TRADE



European Community Meat Trade, World Exports, and EEC and U.S. Shares 1/

Item	1973	1975	1977	1978	1979	1980
	---Million metric tons---					
Total meat						
EC imports	1.46	.96	1.00	1.05	.95	.93
EC exports	.21	.39	.39	.38	.62	.98
Total world exports	4.09	3.54	4.62	4.80	5.44	5.65
EC share (pct.)	5	11	8	8	11	17
U.S. share (pct.)	8	10	12	12	11	13
Beef and veal						
EC imports	.65	.09	.16	.16	.18	.15
EC exports	.04	.20	.10	.11	.23	.53
Total world exports	1.95	1.45	1.93	2.11	2.42	2.33
EC share (pct.)	2	14	5	5	9	23
U.S. share (pct.)	2	1	2	2	2	3
Poultry						
EC imports	.05	.06	.05	.05	.05	.05
EC exports	.12	.12	.22	.19	.26	.34
Total world exports	.34	.44	.71	.73	.91	1.19
EC share (pct.)	36	28	30	27	29	28
U.S. share (pct.)	20	21	26	26	25	28

1/ Excludes intra-EC trade.

Source: U.N. and FAO data.

Soviet Grain and Livestock Developments

- The Soviet Union had a poor grain harvest in 1981 for the third successive year. A prolonged period of hot, dry weather sharply reduced yields. The 1981 grain crop, currently estimated at 175 million tons, is the smallest since 1975, and fell more than 60 million tons below plan. Official Soviet estimates have been withheld for some time, raising questions about the final output figure.

- The poor harvest and Soviet efforts to maintain livestock herds have boosted their expected grain imports to a record 43 million tons. So far this marketing year, the Soviets appear to have purchased or have commitments for around 42 million tons of grain toward their import needs with coarse grains accounting for slightly more than half of the total.

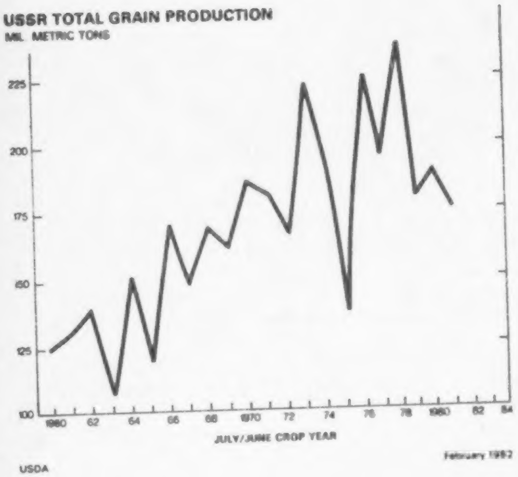
- The Soviets have purchased 13.1 million tons of U.S. wheat and corn for shipment during the sixth year (October 81-September 82) of the Long-Term Agreement and 702,500 tons of soybeans in 1981/82. As of March 4, approximately 8.2 million tons of grain and 502,600 tons of soybeans had been shipped.

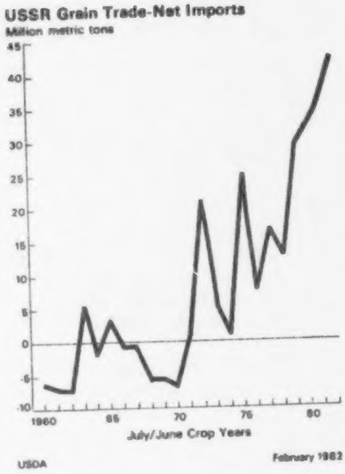
- Because of the poor harvest, total grain utilization will likely fall to the lowest level since 1975/76. Stocks are at low levels after having been drawn down an estimated 18 million tons the past two years.

- Total Soviet meat production increased 1 percent in 1981 despite the third consecutive poor grain harvest. Average slaughter weights fell modestly as livestock inventories continued high. Cattle and poultry inventories at the beginning of 1982 were at record levels. Hog inventories were down slightly from a year earlier.

- Total Soviet meat imports are estimated at around 950,000 tons in 1981, up 15 percent from 1980. With the difficulty that the Soviets have had with expanding meat production, meat imports are likely to remain large in 1982.

- Sowings for the 1982 USSR winter grain crop totaled 35.5 million hectares, up from 34 million the previous year. Conditions for winter grains continue to be favorable. Seeding was timely last fall and the crop had a good start. In December, precipitation was more than double the normal amount in many areas--sufficient to replenish soil moisture supplies in all regions. Conditions through early March suggest less-than-average winterkill.

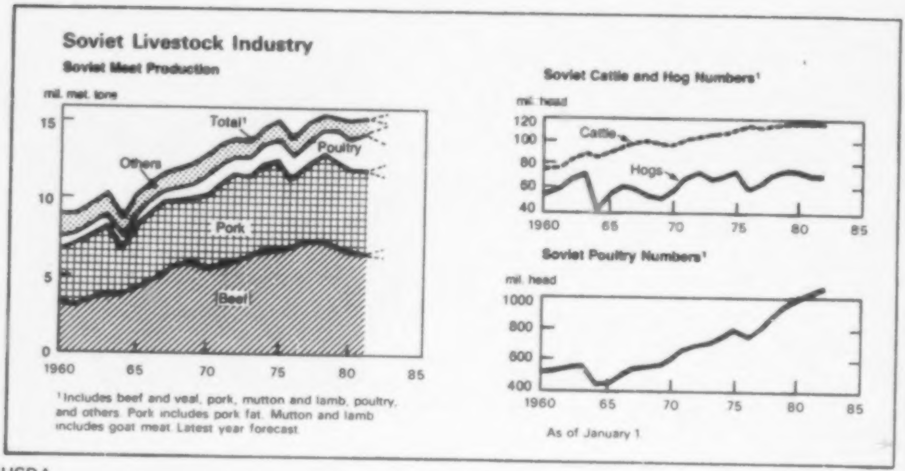




Soviet Grain Supply and Utilization

Year (July-June)	Production	Trade: Imports	Trade: Exports	Availability 1/	Utilization: Feed	Utilization: Total	Stock Change 2/
	--- Million metric tons ---						
				Total Grains 3/			
1972/73	168	22.8	1.8	189	98	187	+2
1973/74	223	11.3	6.1	228	105	214	+14
1974/75	196	5.7	5.3	196	107	206	-10
1975/76	140	26.1	0.7	166	89	180	-14
1976/77	224	11.0	3.3	232	112	221	+11
1977/78	196	18.9	2.3	213	122	228	-16
1978/79	237	15.6	2.8	250	125	231	+19
1979/80	179	31.0	0.8	209	123	222	-13
1980/81 4/	189	34.8	.5	223	122	228	-5
1981/82 5/	175	43.0	1.0	217	121	217	0
				Wheat			
1972/73	86	15.6	1.3	100	41	98	+2
1973/74	110	4.5	5.0	109	30	96	+13
1974/75	84	2.5	4.0	82	34	93	-11
1975/76	66	10.1	0.5	76	30	87	-11
1976/77	97	4.6	1.0	100	28	92	+8
1977/78	92	6.6	1.0	98	44	108	-10
1978/79	121	5.1	1.5	125	43	107	+18
1979/80	90	12.0	0.5	102	53	115	-13
1980/81 4/	98	16.0	0.5	114	50	117	-3
1981/82 5/	88	19.0	0.8	106	45	106	0
				Coarse Grains			
1972/73	72	6.9	0.4	79	53	79	0
1973/74	101	6.4	0.9	106	70	105	+1
1974/75	100	2.7	1.0	101	68	100	+1
1975/76	66	15.6	—	81	56	84	-3
1976/77	115	5.7	2.0	119	78	116	+3
1977/78	93	11.7	1.0	103	74	109	-5
1978/79	105	10.0	1.0	114	79	113	+1
1979/80	81	18.4	—	100	68	100	0
1980/81 4/	81	18.0	0	99	68	101	-2
1981/82 5/	77	23.0	—	100	70	100	0

1/ Availability excludes beginning stocks. Totals may not add due to rounding.
2/ Minus indicates withdrawal from stocks.
3/ Total grain production, trade and utilization figures include pulses, paddy rice, buckwheat, and miscellaneous grains, in addition to wheat and coarse grains.
4/ Preliminary for trade, availability, utilization, and stock change.
5/ Forecast for production, trade, availability, utilization and stocks change.


Soviet Livestock Industry

Soviet Meat Production

¹ Includes beef and veal, pork, mutton and lamb, poultry, and others. Pork includes pork fat. Mutton and lamb includes goat meat. Latest year forecast.

Soviet Cattle and Hog Numbers¹

Soviet Poultry Numbers¹

As of January 1.

USDA

February 1982

Soviet Meat and Poultry Production

	Calendar							
	1960	1965	1970	1975	1978	1979	1980	1981
	Million metric tons							
Production								
Beef & veal	3.2	3.9	5.4	6.4	7.1	7.0	6.7	6.6
Pork	3.3	4.1	4.5	5.6	5.3	5.3	5.1	5.2
Poultry	.8	.7	1.1	1.5	1.9	2.0	2.1	2.3
Total meat 2/	8.7	10.0	12.3	15.0	15.5	15.5	15.0	15.2
Numbers 3/	Million head							
Cattle	74	87	95	109	113	114	115	115
Hogs	53	53	56	72	71	73	74	73
Poultry	514	456	590	792	882	947	981	1,029

1/ Estimates.

2/ Includes mutton, lamb, and goat meat. Pork includes pork fat.

3/ As of January 1.

World and U.S. Commodity Outlook

Grains

- Total world grain production in 1981/82 is projected to be a record 1,498 million tons, 4 1/2 percent above last year's harvest. Virtually all of the increase in production occurred in the United States where production rose by one-fourth from the drought-reduced 1980 harvest. The Soviet Union had a poor harvest for the third successive year. In the Southern Hemisphere, Australian production will be up sharply from a year earlier, but the Argentine and South African harvests may not match the 1980/81 record outturns.

- Record world harvests of wheat, coarse grains, and rice are likely in 1981/82. World wheat production is forecast up 3 percent from 1980/81, with an 18 percent increase in the U.S. harvest and a 11-percent larger crop among the major foreign exporters more than offsetting smaller crops in the USSR and Europe. The 1981 U.S. coarse grain harvest was up one-fourth from 1980, helping to raise 1981/82 world coarse grain production by 6 percent.

- World grain utilization in 1981/82 is projected to show a modest gain after having been virtually unchanged in 1980/81. However, the expected 1-percent growth in use during 1980/81 is well below the 3-percent annual growth rate of the 1970's. Poor harvests in a number of countries and a slowdown in the growth in livestock herds are limiting gains in utilization.

- World utilization of grains in 1981/82 is expected to fall well short of the record harvest, boosting carryover stocks by 35 million tons. Stocks will be at their highest level since 1978/79, but the 14 percent stocks-to-use ratio will be considerably below the 19 percent average of the late 1960's. Most of the buildup in stocks in 1981/82 will occur in coarse grains, where a 29-million-ton increase is currently projected.

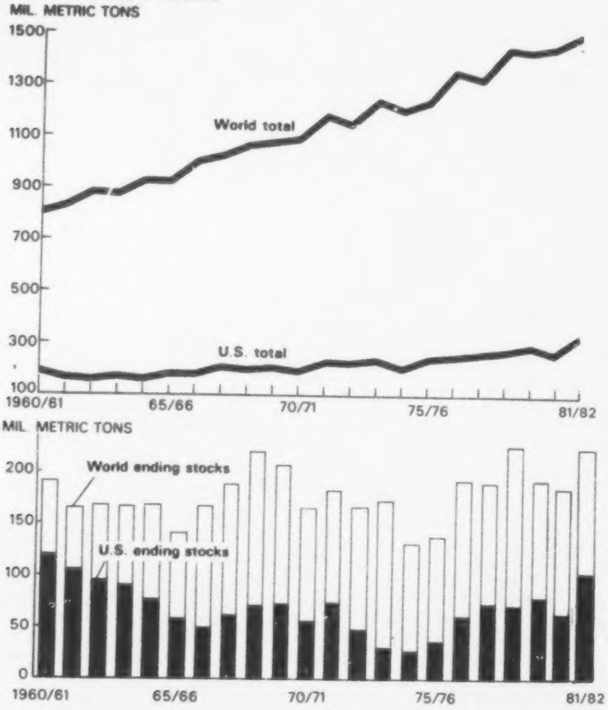
- Global grain trade in 1981/82 is projected to reach a record 214 million tons, 1 percent above 1980/81. The 1-percent growth rate is well below the 7-percent increase in 1980/81, and the 15-percent expansion in 1979/80. The economic slowdown in developed countries, high interest rates, and credit problems in Eastern Europe have dampened import demand.

- In the United States, record grain harvests and only a modest growth in usage suggests a substantial increase in carryover stocks during 1981/82. Wheat carryover stocks are likely to increase around 125 million bushels, and are expected to exceed 1 billion bushels for the first time since 1977/78. Carryover stocks of feed grains are projected to increase 31 million tons. Rice stocks in the United States are expected to triple this year to a record 51 million cwt., primarily because of the 27-percent increase in production.

- A significant portion of the increased U.S. carryover stocks of wheat and feed grains will move into the farmer-owned reserve program. Farmers already have placed more than 1.1 billion bushels of corn and 500 million bushels of wheat into the reserve, and more will go in before the crop year ends. By the end of the 1981/82 marketing year, about 70 percent of the total grain stocks will be isolated from the market in the farmer-owned reserve and government inventory.

- The 1982 U.S. winter wheat crop is in fair-to-good condition in most major production areas. A record acreage was planted to winter wheat, and early indications point to a record crop. However, grower participation in the 15 percent acreage reduction program plus the weather will play important roles in the final outcome. Winter grain prospects in Northern Hemisphere countries are generally favorable, except for some dry areas in China.

GRAINS: WORLD AND U.S. PRODUCTION AND ENDING STOCKS°



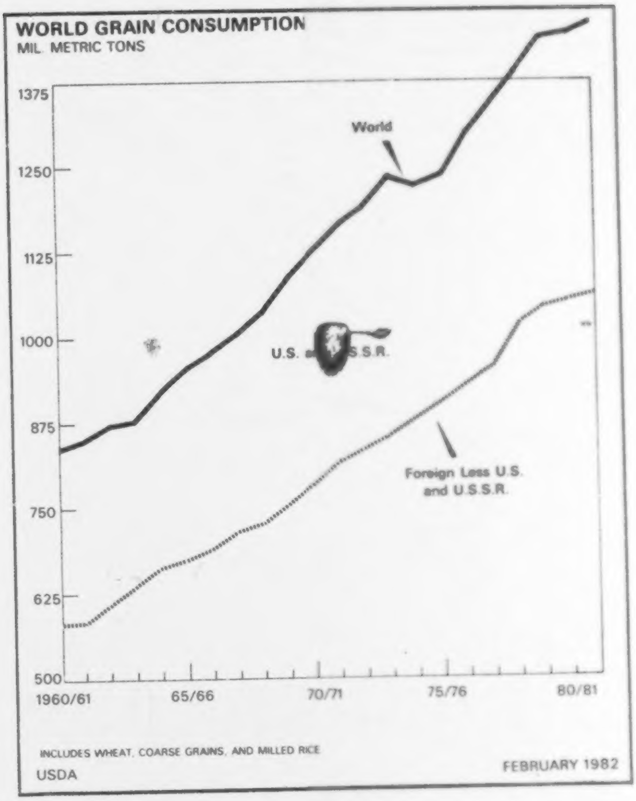
°Includes wheat, coarse grains, and milled rice

USDA FEBRUARY 1982

World and U.S. Grain Supply and Utilization

	1970/71	1975/76	1976/77	1977/78	1979/80	1980/81	1981/82 1/
			- - - Million metric tons - - -				
Beginning stocks	205	131	138	194	220	196	180
Production	1,100	1,246	1,362	1,337	1,418	1,431	1,498
(United States)	183	247	256	262	301	268	331
Total supply	1,305	1,377	1,500	1,531	1,638	1,627	1,678
Utilization	1,139	1,238	1,305	1,340	1,442	1,448	1,462
Ending stocks	166	138	194	191	196	180	215
(United States)	55	37	61	74	78	62	97
Free stocks	37	60	50	41	41	35	30
Stocks/use ratio	14.5	11.1	14.8	14.2	13.8	12.6	14.4
Trade	109	153	157	166	200	212	214

1/ Crop production prospects still uncertain for the Southern Hemisphere; major uncertainties at this point center on utilization and trade.



INCLUDES WHEAT, COARSE GRAINS, AND MILLED RICE

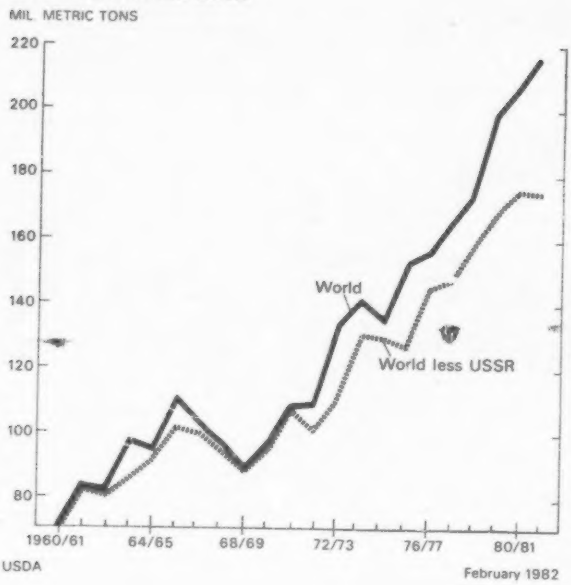
USDA FEBRUARY 1982

World Grain Consumption

	1960/61	1970/71	1972/73	1974/75	1976/77	1978/79	1979/80	1980/81	1981/82 1/
					- - - Million metric tons - - -				
World	836	1,138	1,191	1,217	1,305	1,432	1,442	1,448	1,462
U.S.	138	164	181	141	152	182	185	170	180
USSR	118	188	187	206	221	231	222	228	217
World less U.S., USSR	580	786	823	870	932	1,019	1,035	1,050	1,065

1/ Forecast.

WORLD GRAIN IMPORTS

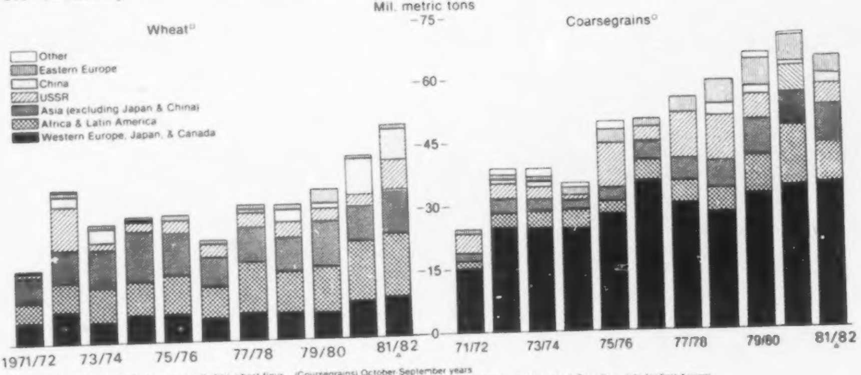


World Grain Imports

Total Imports 1/	1960/61	1970/71	1972/73	1975/76	1976/77	1978/79	1979/80	1980/81	1981/82
	- - - Million metric tons - - -								
World	72	110	134	152	156	174	200	212	214
USSR	1	1	23	26	11	16	31	35	43
World less USSR	71	109	111	126	145	158	169	177	171

1/ July/June marketing year for wheat and coarse grains; calendar year for rice.

U.S. Grain Exports: Volume by Destination*



* (Wheat) October-September years, not including wheat flour (Coursegrains) October-September years
□ Adjusted for transshipments via Canadian ports except the first and third years ○ Not adjusted for transshipments through Canadian ports for first 4 years
△ Forecast

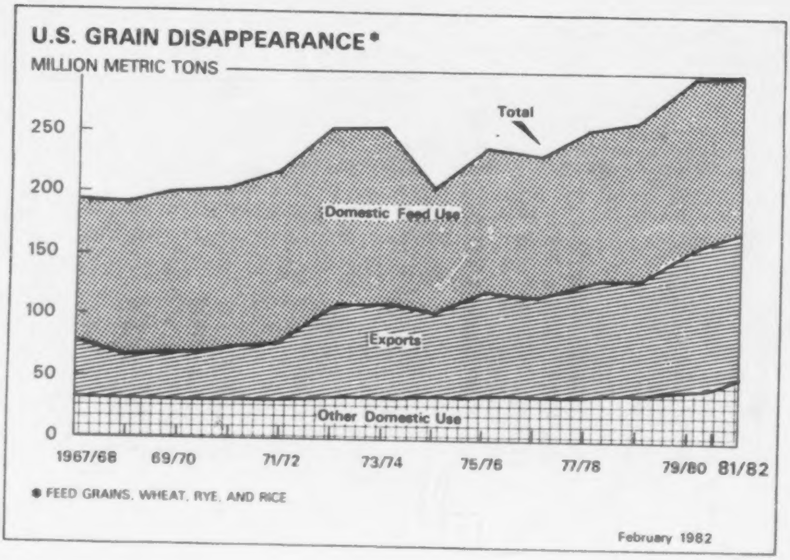
FEBRUARY 1982

USDA

U.S. Grain Exports: Volume by Destination

Destination 1/	1971	1972	1976	1977	1978	1979	1980/81	Forecast 1981/82 2/
	- - - Million metric tons - - -							
Wheat								
W. Eur., Japan & Canada	5.0	7.6	5.4	6.6	6.5	7.7	7.2	6-8
Africa & Latin America	4.6	6.5	7.4	11.7	9.5	12.0	14.8	15-17
Asia (Excl. Japn. & China)	6.2	7.8	6.9	8.2	7.9	7.2	8.7	9-11
USSR 3/	.8	10.1	3.0	3.4	3.9	2.3	3.7	5.9
China	.1	2.4	---	1.0	2.7	4.1	8.0	7-9
Eastern Europe	.4	1.0	1.0	1.0	.9	2.8	.7	5-1
Other	---	.5	---	---	---	---	---	---
Total	17.1	35.9	23.8	31.8	31.8	36.1	43.2	48-50
Coarse grains								
W. Eur., Japan & Canada	15.3	25.0	35.7	30.2	27.8	35.7	34.5	33-35
Africa & Latin America	1.6	3.2	4.9	5.4	5.7	13.0	13.7	8-10
Asia (Excl. Jap. & China)	2.0	3.8	4.6	5.2	6.6	6.7	6.8	8-10
USSR 3/	4.4	3.4	3.2	10.9	10.9	5.9	5.7	7.5
China	---	1.2	---	---	2.8	1.8	.7	.5-1.5
Eastern Europe	1.4	.9	2.2	3.9	5.7	8.0	7.5	4-6
Other	---	1.6	---	---	---	.1	---	---
Total	24.6	39.1	50.6	55.5	59.5	71.2	69.0	62-66

1/ Year beginning October 1; not adjusted for transshipments through Canadian ports for 1971-75. 2/ Forecast. 3/ Includes accumulated exports and outstanding sales during the extended agreement year as of March 12, 1982.



U.S. GRAIN DISAPPEARANCE*

MILLION METRIC TONS

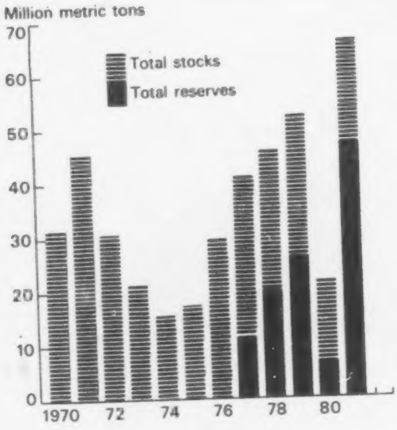
* FEED GRAINS, WHEAT, RYE, AND RICE

February 1982

U.S. Grain Use

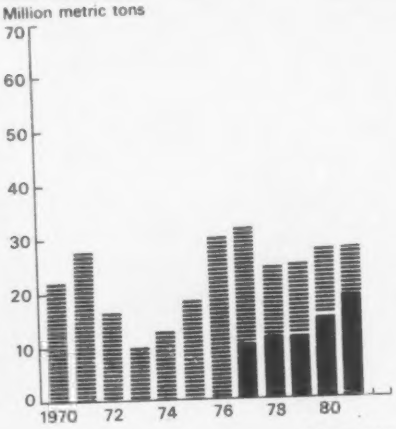
	1970/71	1973/74	1974/75	1975/76	1977/78	1978/79	1979/80	1980/81	1981/82
			- - - Million metric tons - - -						
Feed Use	132	143	106	117	124	142	141	125	133
Other Use	32	34	35	38	38	40	44	45	47
Total Domestic	164	177	141	155	162	182	185	170	180
Exports	40	76	66	84	89	95	112	114	116
Total Use	204	253	207	239	251	277	296	284	296

U.S. Feed Grain Carryover and Reserves



USDA

U.S. Wheat Carryover and Reserves



February 1982

Grain Carryover and Reserves

Grains 1/	1970/71	1971/72	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82
	- - - Million metric tons - - -								
Wheat									
Carryover	22	27	18	30	32	25	25	27	30
FOR 2/	---	---	---	---	9	11	7	10	15
Gov. Reserve	10	10	---	---	1	1	5	5	5
Feedgrains									
Carryover	32	45	17	30	41	46	52	35	65
FOR 2/	---	---	---	---	10	16	18	5 3/	38
Gov. Reserve	7	9	---	---	1	4	8	7	9
Total									
Carryover	54	72	35	60	73	73	78	62	98
FOR 2/	---	---	---	---	21	27	24	15	53
Gov. Reserve	17	19	---	---	2	5	13	12	15

1/ June 1 for wheat, barley, and oats; October 1 for corn & sorghum; August 1 for rice.
2/ Farmer-owned reserve.
3/ Reserve loans that were called in January, 1981, and extended indefinitely in April.

Farmer-Owned Reserve (FOR) Entries and Monthly Prices for Wheat and Corn 1/

Item	1978		1979		1980		1981		1982	
	Quantity in FOR	Farm price	Quantity in FOR	Farm price	Quantity in FOR	Farm price	Quantity in FOR	Farm Price	Quantity in FOR	Farm Price
	Mil. bu.	$/bu.	Mil. bu.	$/bu.	Mil. bu.	$/bu.	Mil./bu.	$/bu.	Mil. bu.	$/bu.
Wheat										
January	76	2.53	411	2.99	227	3.74	256	4.21		
February	92	2.59	411	2.99	234	3.78	291	4.17	493	3.78
March	143	2.67	411	2.97	246	3.64	323	4.09	512	3.67
April	234	2.82	411	3.01	254	3.58	359	4.07		
May	334	2.82	411	3.20	259	3.69	359	3.95		
June	349	2.81	361	3.72	261	3.69	360	3.70		
July	367	2.81	291	3.89	260	3.81	361	3.62		
August	384	2.88	265	3.74	255	3.94	376	3.62		
September	396	2.92	256	3.87	214	3.99	412	3.65		
October	400	2.99	248	3.98	215	4.19	438	3.77		
November	406	3.04	237	3.94	214	4.32	457	3.85		
December	408	3.01	232	3.80	216	4.22	465	3.80		
Corn										
January	---	2.00	726	2.11	610	2.45	920	3.19		
February	1	2.03	733	2.18	717	2.39	938	3.22	936	2.54
March	3	2.15	735	2.22	765	2.40	864	3.25	1,112	2.40
April	7	2.24	735	2.27	817	2.36	549 2/	3.24		
May	51	2.29	735	2.35	878	2.42	421 2/	3.24		
June	90	2.28	710	2.49	890	2.49	382 2/	3.17		
July	114	2.16	683	2.64	896	2.73	323 2/	3.14		
August	168	2.01	586	2.54	890	2.92	264 2/	2.87		
September	257	1.98	552	2.51	673	3.01	206 2/	2.55		
October	386	1.97	535	2.41	611	2.99	177 2/	2.45		
November	521	2.02	532	2.27	583	3.10	91	2.34		
December	658	2.09	570	2.38	609	3.19	487	2.39		

1/ Quantities are mid-month estimates.
2/ Reserve loans that were called in January 1981, and extended indefinitely in April.

Oilseeds

- World production of major oilseeds in 1981/82 is increasing by about 8 percent to 171.9 million tons but still below the record outturn of 173.5 million tons in 1979/80. Soybeans account for more than half this year's expansion. Most of the gain is in the United States with a slight drop anticipated in the Southern Hemisphere soybean crop.

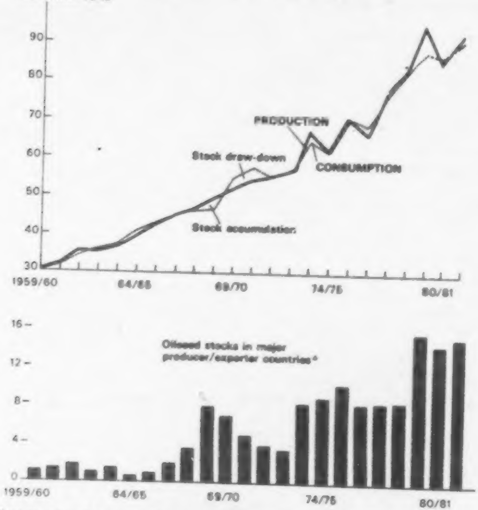
- With the United States accounting for over about 70 percent of the rise in total oilseed output and about 95 percent for soybeans, the rise in U.S. soybean exports is expected to exceed 3 million tons or 15 percent. Expansion in U.S. exports also has benefited from a declining dollar exchange rate in the last half of 1981; particularly in relation to the European currencies, and from much lower prices for soybeans and their products.

- U.S. exports of soybeans and meal have been particularly strong in early 1981/82 with the EC. countries and Spain accounting for much of the rise and nearly 60 percent of total U.S. soybean exports. Lower oilseed meal prices, relative to grains in the EC have been instrumental this year in strong European demand. The Soviet Union is also expected to be a much larger buyer of soybeans and products.

- In the United States, only small gains for soybean meal and oil are anticipated as livestock feeding is off and real consumer incomes are expected to show little growth. Soybean meal use may rise 2-3 percent over last year's poor showing.

- World soybean use will be up about 5 percent in 1981/82, but this is short of the increase in output. Thus, stocks will build slightly and remain below the record 18 million tons reached at the beginning of 1980/81. The greater share (about 55 percent) of these will be held in the United States where stocks may reach 9-10 million tons (350 million bushels).

WORLD PRODUCTION, CONSUMPTION, AND STOCKS OF OILSEEDS AND MEALS ON A MEAL BASIS°



°Includes soybean, fish, peanut, sunflower, cottonseed, rapeseed, copra, and palm kernel meals on a 44% soybean meal basis

△ Data prior to 1968/69 U.S. soybean stocks only; later data include all U.S. and Canadian oilseeds plus soybean stocks in Brazil, Argentina, and Western Europe

1980/81 forecast

USDA

FEBRUARY 1982

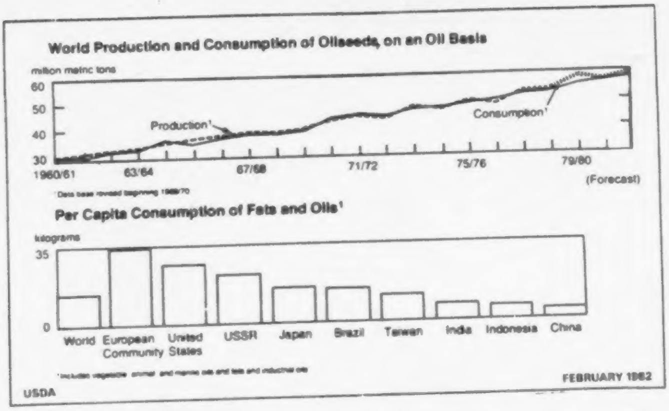
World Production, Consumption & Stocks of Oilseeds and Meals on a Meal Basis

Oilseeds & Meals	1970/71	1976/77	1978/79	1979/80	1980/81	1981/82 1/
	---Million metric tons---					
Production 2/	56.0	66.7	83.4	95.0	85.7	92.0
Exports	24.7	33.9	40.6	46.2	44.1	45.9
Consumption	58.0	68.8	83.5	88.5	87.3	92.1
Stock 3/	5.1	8.4	8.5	15.9	14.4	14.3

1/ Forecast; depends largely on outcome of Southern Hemisphere harvests this spring.

2/ Includes soybean, fish, peanut, sunflower, cotton, linseed, rapeseed, copra, and palm meal expressed in terms of 44 percent soybean meal.

3/ Soybean stocks in U.S., W. Europe, Argentina and Brazil plus stocks of all other oilseeds in U.S. and Canada.



World Production and Consumption of Oilseeds, on an Oil Basis

	1970/71	1976/77	1978/79	1979/80	1980/81	Forecast 1981/82 1/
	---Million metric tons---					
Production	42.1	47.4	54.8	58.7	56.8	58.9
Exports	12.8	16.9	19.3	20.8	20.0	20.8
Consumption	42.2	48.7	54.7	57.6	56.7	59.0
Stocks	2.3	3.7	4.1	5.2	5.3	5.2

Per Capita Consumption of Fats and Oils

World	E.C.	U.S.	USSR	Japan	Brazil	Taiwan	India	Indo-nesia	China
---- Kilograms---									
13.7	34.1	26.1	22.5	15.3	14.5	10.5	6.9	5.3	3.9

Major Oilseeds: World and U.S. Production and U.S. Stocks

Production	1970/71	1976/77	1977/78	1979/80	1980/81	1981/82 1/
	---Million metric tons---					
World total	111.7	127.6	146.9	173.6	159.3	171.9
Foreign	74.9	86.5	90.3	101.1	103.5	106.9
United States	36.8	41.1	56.6	72.5	55.8	65.0
Ending stocks 2/	6.5	11.3	11.3	22.4	19.3	19.0

1/ Forecast based on Northern Hemisphere crops harvested and Southern Hemisphere crops which will not be harvested until spring.
2/ Includes U.S. stocks of all oilseeds, Brazilian and Argentine soybean stocks on September 30, West Europe soybean stocks plus Canadian rapeseed and flaxseed stocks.
*Includes soybeans, cottonseed, peanuts, sunflowerseed, rapeseed, and flaxseed.

Livestock

- World meat output rose slightly in 1981 as larger poultry production more than offset a decline in red meat. Total output may show another small gain in 1982 with most of the increase coming from poultry. Beef output is expected to rise slightly while pork production drops. Despite slight increases in total meat production in the last few years, per capita consumption has dropped because the increased output has not kept pace with population growth.

- The U.S. cattle herd increased again in 1981, but the rate of increase slowed. The beef cow herd increased 2 percent, compared with 4 percent a year earlier. Cattlemen held 8 percent more beef replacement heifers on January 1, 1982 than a year earlier, suggesting continued growth in the cattle herd.

- Total U.S. meat production rose to a record 54.4 billion pounds in 1981, up almost 2 percent from the year-earlier level; a slight decline in output is expected in 1982. Beef production rose in 1981 as an increase in nonfed cattle slaughter more than offset a decline in fed slaughter. In 1982, beef output may remain near the 1981 level. Pork producers have responded to poor returns by cutting back on production, and 1982 output may drop around 10 percent if producers carry through with their intentions. Poultry output rose 6 percent in 1981; the rate of increase is slowing and 1982 output will be up only slightly.

- U.S. meat exports rose in 1981 while imports declined. Tighter world beef supplies and weak U.S. beef prices resulted in a sharp drop in beef imports; other meat imports remained near the 1980 level. Poultry meat exports continued their strong growth in 1981 while other meat exports also showed substantial gains. In 1982, imports may increase a little, but exports should show another substantial rise.

- Total red meat and poultry consumption was record-large in 1981 as was production. On a per capita basis, however, consumption declined slightly as net imports dropped and population increased. Poultry consumption accounted for a larger share of the meat consumed as per capita red meat consumption declined almost 2-1/2 pounds and poultry rose 2 pounds. If pork production declines sharply as expected, 1982 per capita meat consumption could slip from the high levels of the last few years.

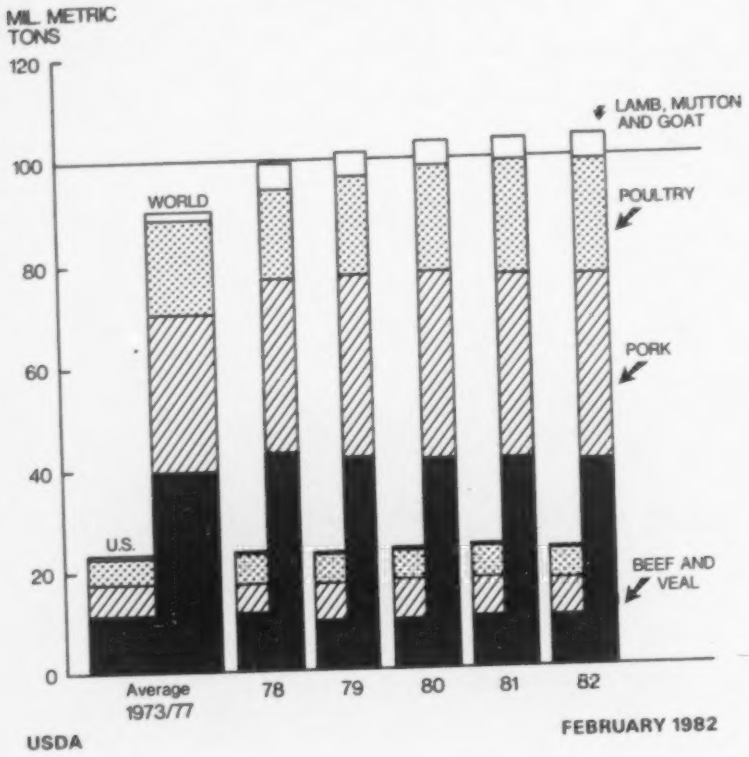
- Large meat supplies and the strain put on consumer purchasing power by the weak economy held down livestock and poultry prices in 1981. Choice fed steer prices declined more than $3 per cwt. and yearling feeder steer prices declined about $9. Hog prices rose about $4 per cwt. from the very low 1980 level while broiler prices remained near their 1980 average. With the expected cutback in meat output; livestock and poultry prices are expected to strengthen in 1982. The amount of the increase will depend largely on the gains in consumer purchasing power as the economy strengthens.

- The large feed supplies are holding down feed costs to livestock and poultry producers in 1982. The anticipated rise in livestock and poultry prices in 1982 should improve producer returns.

- U.S. milk production increased substantially in 1981 as both cow numbers and output per cow rose. Output per cow likely will continue to increase in 1982 due to lower feed costs. This increase, combined with the larger cow herd, indicate another big gain in milk output in 1982. Commercial use rose in 1981; but the growth did not keep pace with the gains in output and purchases under the price support program rose sharply. Commercial use is expected to rise again in 1982 as the large supplies hold down price gains. Use, however, will continue to lag output, and purchases under the price support program will remain large. Milk prices showed the smallest increase in several years during 1981. No change in the price support level on October 1 plus the continued surplus, indicate prices will rise only slightly in 1982.

- The expansion in government purchases of dairy products began in late 1979, closely following the pattern of increasing production and sluggish commercial use. Goverment purchases in 1981 were the largest on record and were about 10 percent of total estimated farm marketings of milk.

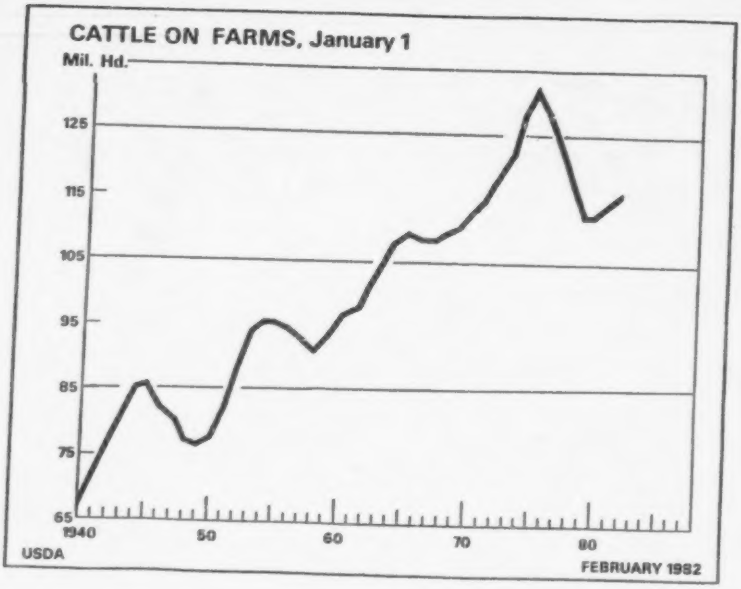
U.S. AND WORLD MEAT PRODUCTION



U.S. and World Meat Production

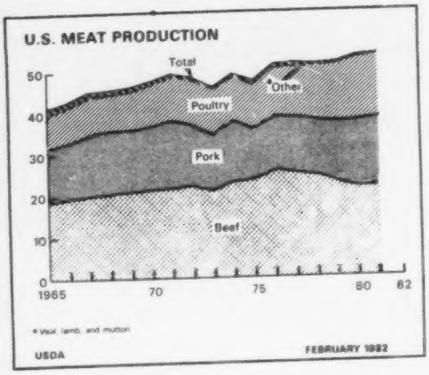
	Average 1972/77	1978	1979	1980	1981	1982
	---Million metric tons---					
Beef and veal:						
U.S.	11.2	11.3	9.9	10.0	10.3	10.3
World	39.8	42.4	40.9	40.6	40.5	40.6
Pork						
U.S.	5.9	6.1	7.0	7.5	7.2	6.4
World	31.6	34.2	36.5	37.5	37.0	36.5
Poultry						
U.S.	5.1	5.9	6.5	6.6	7.0	7.0
World	15.4	18.4	19.9	20.8	21.8	22.3
Lamb, mutton and goats:						
U.S.	.2	.1	.1	.1	.1	.1
World	4.6	4.4	4.4	4.5	4.5	4.6

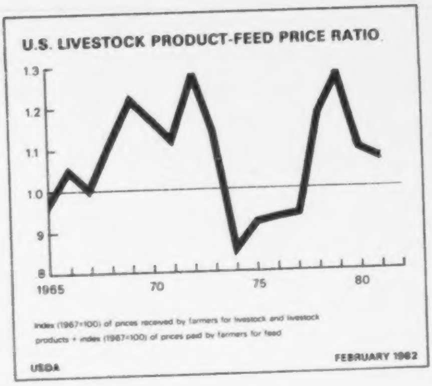
* Includes the major meat-producing countries except China.



Cattle on Farms

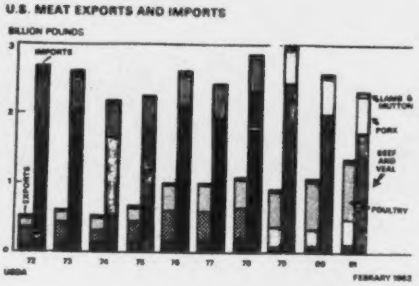
	1940	1950	1960	1970	1975	1977	1978	1979	1980	1981	1982
	- - - Million head - - -										
Cattle on farms	68.3	78.0	96.2	112.4	132.0	122.8	116.4	110.9	111.2	114.3	115.7

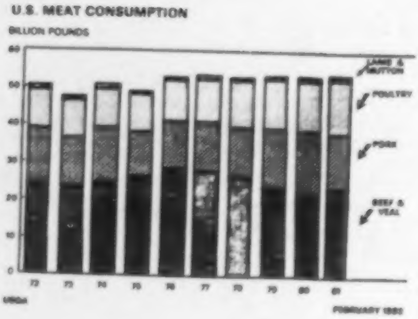




Meat Production and Feed/Price Ratio

	1965	1970	1975	1976	1977	1978	1979	1980	1981
					---Billion pounds---				
Beef	18.7	21.7	24.0	26.0	25.3	24.2	21.4	21.6	22.4
Pork	12.8	14.7	11.8	12.7	13.2	13.4	15.4	16.6	15.9
Poultry	8.1	10.2	10.6	11.8	12.1	12.9	14.3	14.5	15.4
Other	1.7	1.1	1.3	1.2	1.2	.9	.7	.7	.8
Total	41.3	47.7	47.7	51.7	51.9	51.5	51.9	53.5	54.4
						---Ratio---			
Livestock/feed price ratio	.97	1.17	.92	.93	.94	1.19	1.26	1.09	1.06





U.S. Meat Exports and Imports

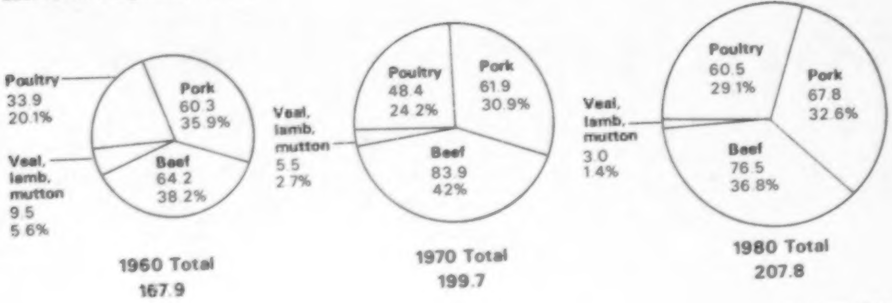
	1979		1980		1981	
	Imports	Exports	Imports	Exports	Imports	Exports
			---Billion pounds---			
Beef and Veal	2.431	.171	2.085	.176	1.760	.221
Pork	.499	.291	.550	.252	.541	.307
Lamb and Mutton	.044	.001	.033	.001	.031	.002
Poultry	0	.488	---	.695	0	.830
TOTAL	2.974	.951	2.668	1.124	2.332	1.360

U.S. Meat Consumption

	1979	1980	1981
		---Billion pounds---	
Beef and Veal	23.971	23.737	24.189
Pork	15.360	16.565	15.970
Poultry	13.480	13.642	14.258
Lamb and Mutton	.333	.345	.370
TOTAL	53.144	54.289	54.787

Per Capita Meat Consumption

Lbs. retail weight equivalent

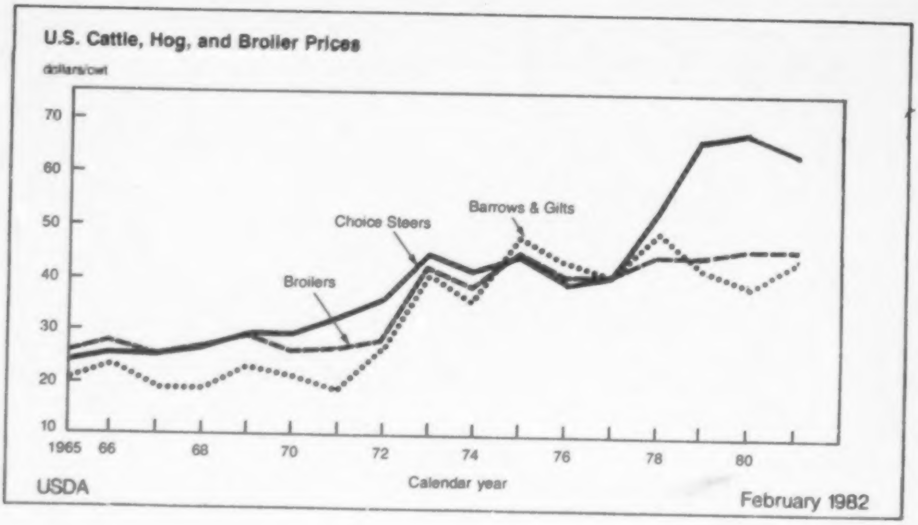


February 1982

USDA

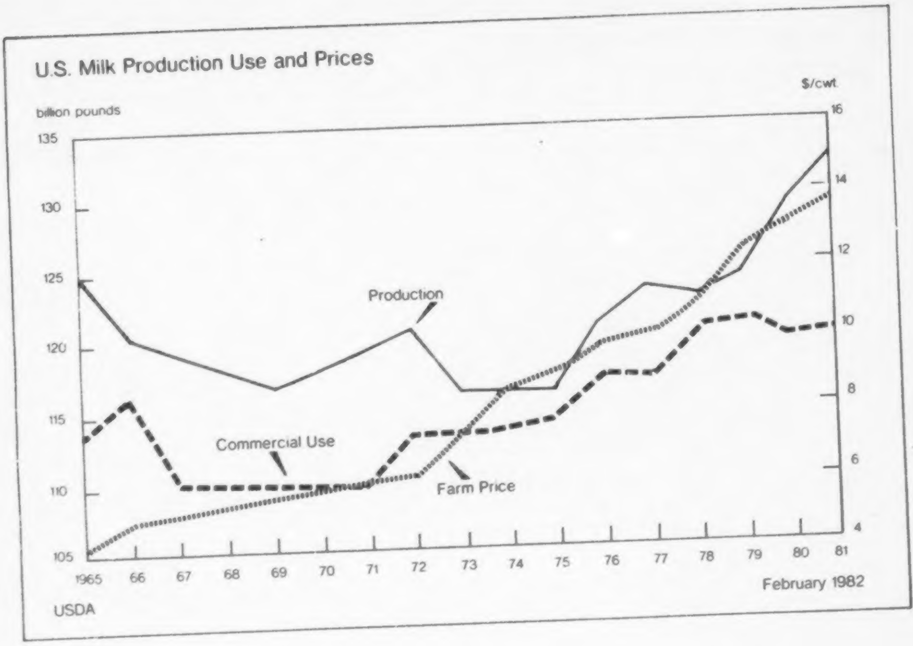
Per Capita Meat Consumption

Item	1960	1970	1980
	(Lbs. retail weight equivalent)		
Beef	64.2	83.9	76.5
Veal	5.2	2.6	1.7
Pork	60.3	61.9	67.8
Lamb and mutton	4.3	2.9	1.3
Total red meat	134.0	151.3	147.3
Broilers	23.4	36.8	47.0
Turkeys	6.1	8.0	10.4
Other chicken	4.4	3.6	3.1
Total poultry	33.9	48.4	60.5
Total Meat	167.9	199.7	207.8



U.S. cattle, hog, and broiler prices

Item	Calendar							
	1965	1970	1975	1976	1978	1979	1980	1981
	- - - Dollars/cwt. - - -							
Choice steers	24.99	29.36	44.61	39.11	52.34	67.75	67.04	63.84
Barrows and gilts	21.30	21.95	48.32	43.11	48.49	42.06	40.04	44.45
Broilers	26.40	26.40	45.10	40.20	44.50	44.40	46.80	46.30

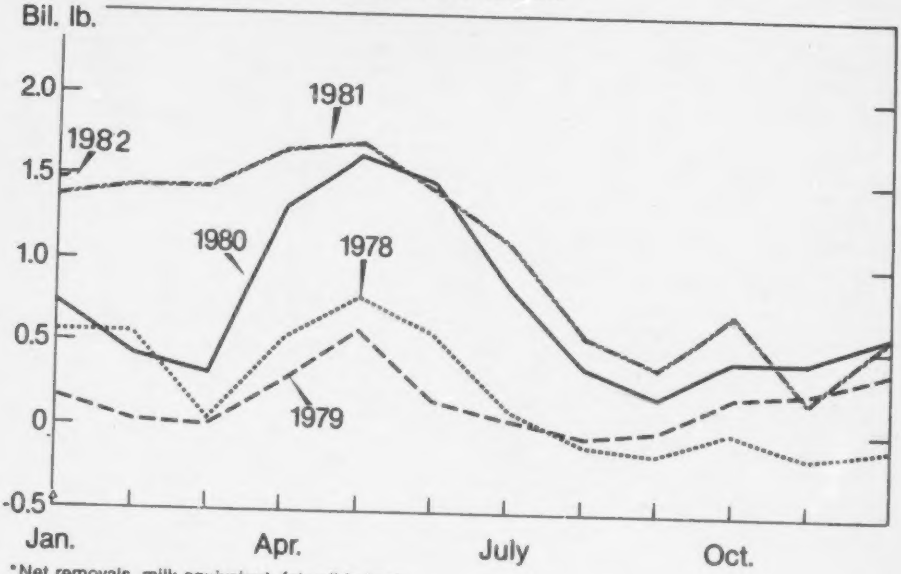


U.S. Milk Production, Use and Prices

	1965	1970	1975	1976	1978	1979	1980	1981 1/
	---Billion pounds---							
Production	124.2	117.0	115.4	120.2	121.5	123.4	128.4	132.4
Commercial Use	113.9	109.2	113.8	116.3	118.8	120.2	119.1	120.0
	---Dollars/cwt.---							
Farm Price	4.23	5.71	8.75	9.66	10.60	12.00	13.00	13.75

1/ Estimate.

U.S.D.A. Dairy Product Purchases*



*Net removals, milk equivalent, fat-solids basis.
^Negative figures denote domestic sales exceeded purchases.

USDA Dairy Product Purchases

	1978	1979	1980	1981
		Million pounds		
Butter	112	82	257	352
Cheese	40	40	350	563
Nonfat dry milk	285	255	634	851
Milk equivalent	2,743	2,119	8,800	12,861

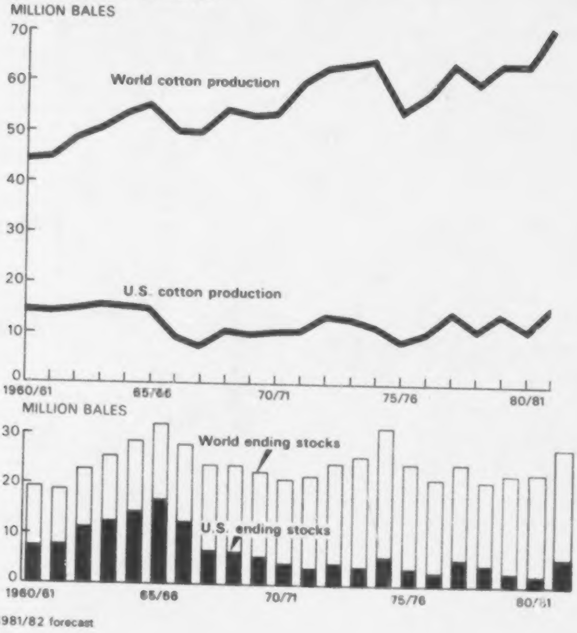
Cotton

- The 1981/82 world cotton situation is highlighted by record production, relatively weak demand, sharply rising stocks, and lower prices. Based on March indications, the crop is estimated at 70.8 million bales, up 5.2 million from last season, mainly due to larger U.S. production. Mill use is forecast at 66.1 million bales, up about 1 million, primarily reflecting larger Chinese consumption. As a result, ending stocks are projected to increase over 4 million bales to about 27.5 million, the largest in 7 years.

- Increasing stocks also highlight the 1981/82 U.S. situation. Ending stocks are placed at 6.4 million bales, up 3.7 million from the beginning level, primarily due to the large crop. Production totaled 15.7 million bales, up 4.6 million from last season. Mill use is forecast at 5.4 million bales, the smallest since the 1930's as a result of the recession and record textile imports. Exports are estimated at 6.8 million bales, up nearly 1 million from 1980/81.

- The world cotton outlook for 1982/83 is for an improved supply-demand balance, although stocks are expected to remain large. With prospects for some acreage reduction worldwide, and for more normal yields in the United States, global production may fall 2-6 million bales from the 1981/82 level. In contrast, consumption is expected to continue its upward trend, gaining perhaps 1-3 million bales, based on some recovery in textile activity in the United States and major foreign cotton consuming nations. Thus, stocks may be worked down somewhat from the high level at the beginning of the season.

COTTON: WORLD AND U.S. PRODUCTION AND ENDING STOCKS



1981/82 forecast

USDA

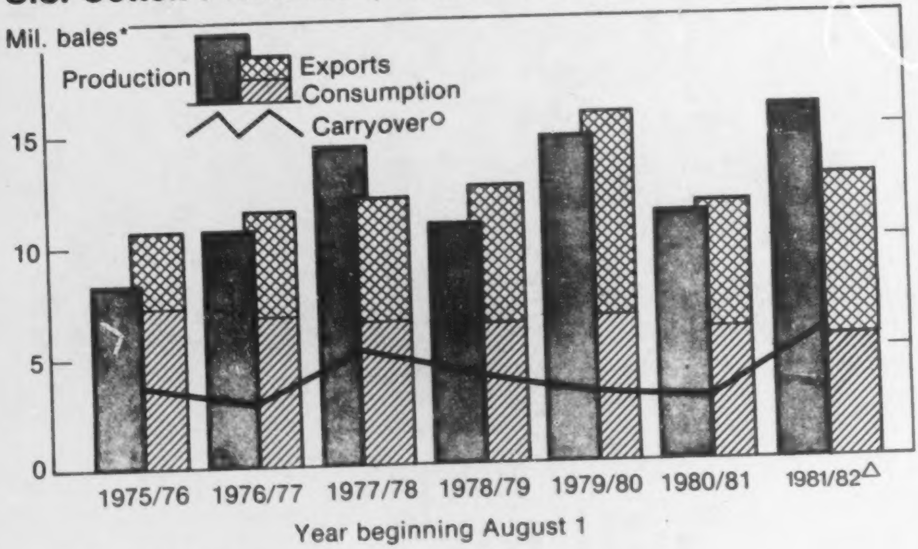
February 1982

World Cotton Production and Utilization

	1970/71	1975/76	1977/78	1978/79	1979/80	1980/81	1981/82 1/
				---Million bales---			
Production	53.7	54.1	64.1	60.0	65.5	65.6	70.8
Consumption	56.1	61.2	60.3	62.4	65.3	65.3	66.1
Exports	17.7	19.1	19.1	19.8	22.7	19.9	20.4
Ending stocks	20.9	24.0	24.7	22.1	22.2	23.1	27.5

1/ Forecast; Southern Hemisphere crops, which account for 10 percent of global output, are not yet harvested. Global utilization is more uncertain.

U.S. Cotton Production, Use And Carryover



*480-Pound Net Weight Bales. °Ending. △Preliminary.

U.S. cotton production, use and carryover

Item	1970/71	1975/76	1977/78	1978/79	1979/80	1980/81	Forecast 1981/82
				- - - Million bales - - -			
Production	10.2	8.3	14.4	10.9	14.6	11.1	15.7± .2
Consumption	8.2	7.2	6.5	6.4	6.5	5.9	5.4± .2
Exports	3.9	3.3	5.5	6.2	9.2	5.9	6.8± .5
Ending stocks	4.2	3.7	5.3	4.0	3.0	2.7	6.4± .7
				- - - Cents/pound - - -			
Farm price	22.9	51.3	52.3	58.4	62.5	74.7	58.2 1/

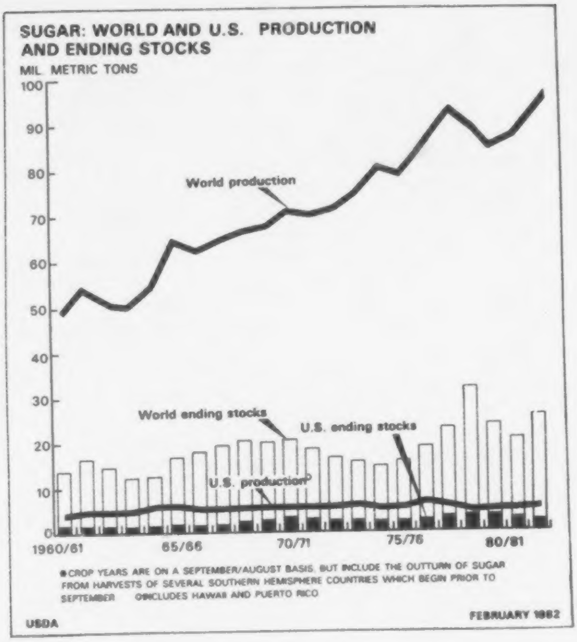
1/ Weighted average price during the first 5 months of the season. This is not a forecast for 1981/82.

Sugar

- The 1981/82 world sugar situation is highlighted by production well in excess of consumption and, consequently, low prices. Production is estimated at a record 95.8 million tons, sharply above last season's poor level, and nearly 4 million above consumption. As a result, stocks are expected to increase to about 25.2 million tons by the end of the season, up nearly a fifth from the beginning level. U.S. stocks are estimated at 2.9 million tons, up from 2.5 million a year earlier.

- With excess supplies and sluggish demand, world sugar prices came under severe pressure in 1981. Prices declined from 28 cents per pound in January to less than 12 cents late in the year. After firming early in 1982, prices have slipped to the 11-12 cents per pound range.

- Although overall U.S. per capita sweetener consumption has remained about constant over the past decade, use of sugar has declined dramatically. Increased use of generally cheaper high fructose corn syrup (HFCS) is responsible. Since 1970, HFCS use jumped from virtually zero to more than 20 pounds per person, while sugar use declined from more than 100 pounds to about 80 pounds per person.



SUGAR: WORLD AND U.S. PRODUCTION AND ENDING STOCKS

*CROP YEARS ARE ON A SEPTEMBER/AUGUST BASIS, BUT INCLUDE THE OUTTURN OF SUGAR FROM HARVESTS OF SEVERAL SOUTHERN HEMISPHERE COUNTRIES WHICH BEGIN PRIOR TO SEPTEMBER. ○INCLUDES HAWAII AND PUERTO RICO.

USDA FEBRUARY 1982

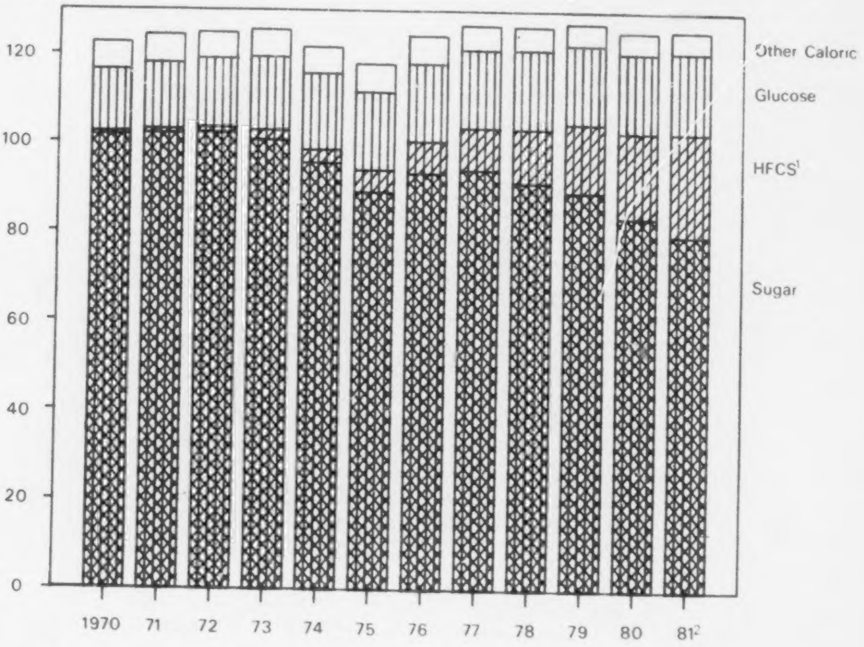
Sugar Production and Stocks

	1970/71	1975/76	1977/78	1978/79	1979/80	1980/81	1981/82
	--Million metric tons (raw)--						
Production							
World	70.7	81.7	92.5	91.1	84.2	86.9	95.8
United States	5.6	6.6	5.5	5.5	5.2	5.5	5.8
Ending Stocks							
World	19.0	21.0	29.8	30.6	23.6	21.3	25.2
United States 1/	2.9	2.7	3.3	3.5	2.9	2.5	2.9

1/ Includes Hawaii and Puerto Rico.

U.S. PER CAPITA SWEETENER CONSUMPTION

POUNDS PER CAPITA



[1] High Frutose Corn Syrup
[2] 1981 Preliminary

USDA **FEBRUARY 1982**

U.S. Sweetener Consumption

	Sugar	HFCS	Glucose	Other Caloric	Total
			- - - Pounds per capita - - -		
1970	101.7	0.7	14.0	6.1	122.5
1971	102.1	.9	14.9	6.4	124.3
1972	102.3	1.3	15.4	5.9	124.9
1973	100.8	2.1	16.5	6.2	125.6
1974	95.6	3.0	17.2	6.0	121.8
1975	89.1	5.0	17.5	6.4	118.0
1976	93.4	7.2	17.5	6.3	124.4
1977	94.2	9.5	17.6	5.5	126.8
1978	91.4	12.1	17.8	5.3	126.6
1979	89.3	15.4	17.8	5.0	127.5
1980	83.7	19.1	18.0	4.8	125.6
1981 1/	79.7	23.1	18.3	4.8	125.9

1/ Preliminary

Commodity Stocks and Prices

- The recovery in 1981 of U.S.crop supplies from the drought-reduced level of 1980, coupled with weak overseas demand, will mean sharply higher stocks of grains, oilseeds and cotton. The limited growth in use will not match the gains for production, with the resulting buildup in stocks dampening prices.

- U.S. corn stocks next October are projected at 2.08 billion bushels, double last year. However, with this year's expected sharp increase in the farmer-owned reserve, free stocks are expected to decline about 100 million bushels to 511 million. Farm prices of $2.40 per bushel in mid-February were a fourth below a year ago.

- U.S. wheat carryover stocks are expected to increase about 13 percent to 1.12 billion bushels. With increased demand not matching the production increase, farm prices are running below year-ago levels. Mid-February prices of $3.67 were down 12 percent from a year ago.

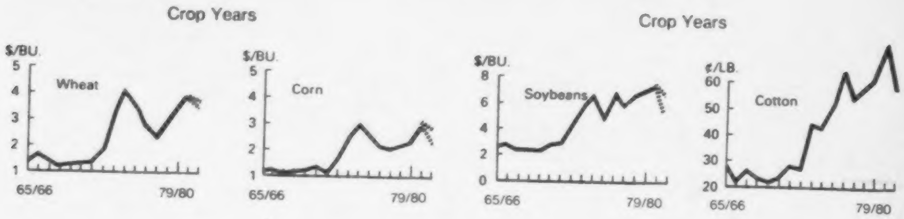
- Soybean stocks in 1981/82 are expected to increase but remain below the record level in 1979/80. Supply increases are outpacing gains in exports and domestic use. Farm prices are averaging well under last year's average of $7.57. Mid-February prices of $5.96 were down more than a fifth from a year ago.

- The recovery in the 1981 cotton crop and weak demand are expected to result in a sharp buildup of cotton stocks. Farm prices are running nearly 30 percent below a year ago.

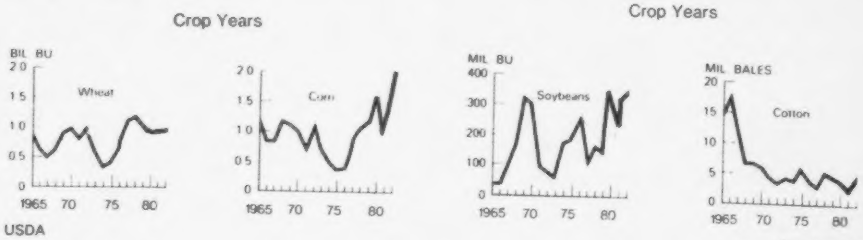
- The 1982 acreage reduction programs announced for wheat, feed grains, rice, and cotton are expected to remove 9 to 14 million acres of cropland from production in 1982. The smaller production combined with expected stronger domestic use and exports will likely help bolster prices in 1982/83.

U.S. COMMODITY STOCKS AND PRICES

Season Average Prices



Ending Stocks



USDA

FEBRUARY 1982

U.S. Commodity Stocks and Prices

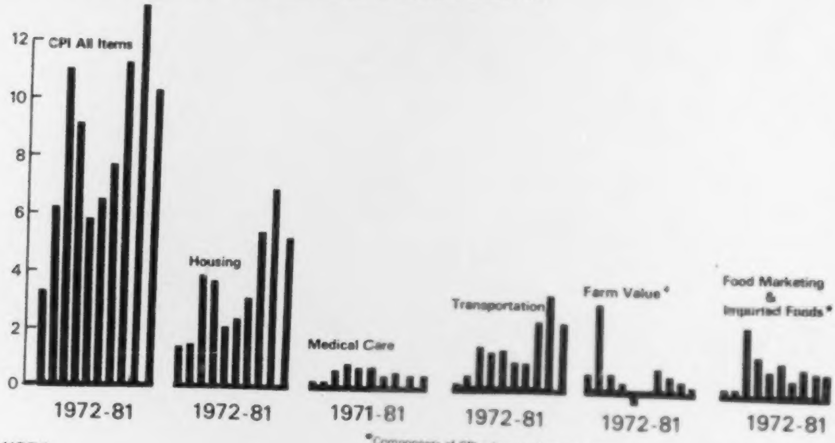
Year	Season average prices				Ending stocks			
	Corn $/Bu.	Wheat $/Bu.	Soybeans $/Bu.	Cotton /Lb.	Corn Bil. Bu.	Wheat Bil. Bu.	Soybeans Mil. Bu.	Cotton Mil. Bales
1975/76	2.54	3.56	4.92	51.3	400	665	245	3.6
1976/77	2.15	2.73	6.81	64.1	886	1,112	103	2.9
1977/78	2.02	2.33	5.88	52.3	1,111	1,177	161	5.3
1978/79	2.25	2.97	6.66	58.4	1,304	924	174	4.0
1979/80	2.52	3.78	6.28	62.5	1,617	902	359	3.0
1980/81	3.11	3.91	7.57	74.7	1,034	989	318	2.7
1981/82	2.40-2.55	3.70	6.05	58.2 1/	2,076	1,117	350	6.4

1/ Weighted average for first 5 months of the marketing season; not a projection for 1981/82.

Food Prices and Inflation

- Housing costs continued to be a major source of rising consumer prices in 1981. Transportation costs also rose substantially and price increases in both sectors exceeded food price increases.
- Higher food marketing costs were the major reason the CPI for food increased in 1981, a pattern that has persisted since 1974. Limited increases in farm commodity prices kept food's contribution to the CPI small this past year.
- Retail food prices in 1981 averaged 7.9 percent higher, down from an 8.6 percent rise the previous year. Relatively large supplies of foodstuffs and weak demand due to the recession combined to hold the food price increase well below the 10.4 percent annual average increase in the overall CPI for all items. Last year was the third consecutive year and the sixth out of the last seven that food prices were up less than prices for nonfood goods and services.
- Falling farm commodity prices in the last part of 1981 held the annual average increase in the farm value of foods to 3 percent, accounting for only one-eighth of the rise in grocery store food prices. Higher food marketing costs pushed the farm-to-retail price spread up 10.4 percent, accounting for nearly three-fourths of the food price increase. The remainder was a result of a 5.8 percent increase in prices for fish and imported foods, held down by a decline in coffee prices.
- Consumers spent $285 billion for food grown on U.S. farms in 1981. About $200 billion was for labor, packaging, transportation, and other costs associated with processing and distributing foods after it left the farm gate; producers received the remaining $85 billion. These nonfarm costs have been a steady source of rising consumer outlays for food.
- Expenditures for food in the United States continue to be a smaller share of total expenditures than in other countries. Expenditures for food eaten at home in the United States have averaged 13-14 percent of total expenditures in recent years, compared with 14-16 percent in Canada, 20-22 percent in the Federal Republic of Germany, about 30-35 percent in the Soviet Union, and an average of 50-60 percent in most developing countries.

PERCENT CHANGE IN CONSUMER PRICE INDEX
FOR ALL ITEMS AND CONTRIBUTION FROM SELECTED SECTORS



*Components of CPI subgroup food at home

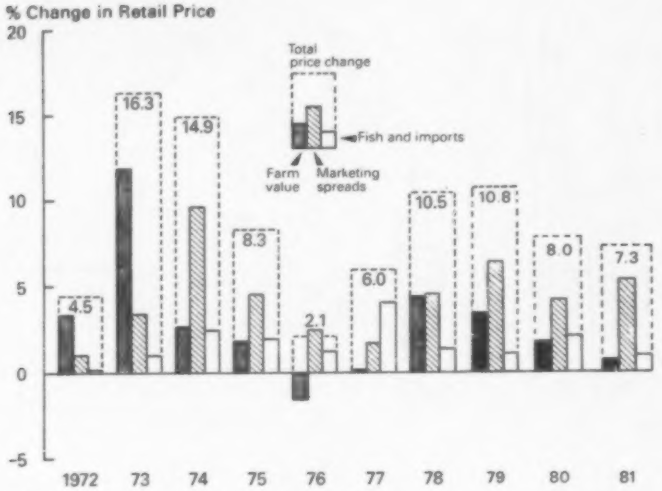
USDA

FEBRUARY 1982

Changes in the Consumer Price Index

Item	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
	- - - Relative contribution - - -									
CPI:										
All items	3.3	6.2	11.0	9.1	5.8	6.5	7.7	11.3	13.5	10.4
Housing	1.4	1.5	3.9	3.7	2.1	2.4	3.8	5.4	7.0	5.2
Medical care	0.2	0.2	0.6	0.8	0.7	0.7	0.4	0.5	0.5	0.5
Transportation	0.1	0.4	1.4	1.2	1.3	0.9	0.8	2.5	3.3	2.3
Farm value of food	0.6	2.9	0.6	0.2	-0.3	0	0.6	0.4	0.2	0.1
Food marketing & imported goods	0.2	0.3	2.3	1.4	0.7	1.1	0.7	1.0	0.8	0.8
	- - - Percent change in each sector - - -									
CPI:										
All items	3.3	6.2	11.0	9.1	5.8	6.5	7.7	11.3	13.5	10.4
Housing	3.9	4.5	11.6	10.8	6.2	7.0	8.7	12.2	15.7	11.5
Medical care	3.2	3.9	9.3	12.0	9.5	9.6	8.4	9.3	10.9	10.8
Transportation	1.1	3.3	11.2	9.4	9.9	7.1	4.7	14.3	17.8	12.1
Farm value of food	9.4	34.6	7.4	3.7	-5.3	0.2	16.8	10.9	5.6	3.0
Food marketing & imported foods	2.1	2.8	19.7	10.8	5.4	8.5	7.7	10.8	9.1	9.2

CONTRIBUTORS TO CHANGES IN FOOD PRICES



Farm value and marketing spread from U.S. farm-food market basket.
Total price change from food-at-home index, Bureau of Labor Statistics.

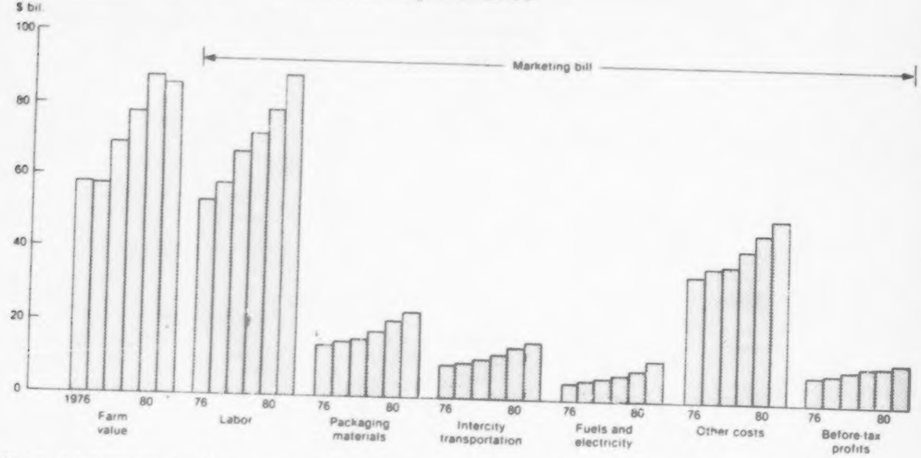
USDA

FEBRUARY 1982

Contributors to Changes in Food Prices

Item	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
					- - - Contribution - - -					
Farm value	3.0	11.6	3.2	1.3	-1.8	0.1	4.5	3.4	1.7	.9
Fish and imports	.2	1.0	2.5	1.9	1.2	4.1	1.4	1.2	2.1	1.0
Marketing spread	1.3	3.7	9.2	5.1	2.7	1.8	4.6	6.2	4.2	5.4
					- - - Percent change - - -					
Total	4.5	16.3	14.9	8.3	2.1	6.0	10.5	10.8	8.0	7.3

Components of U.S. Farm Food Expenditures



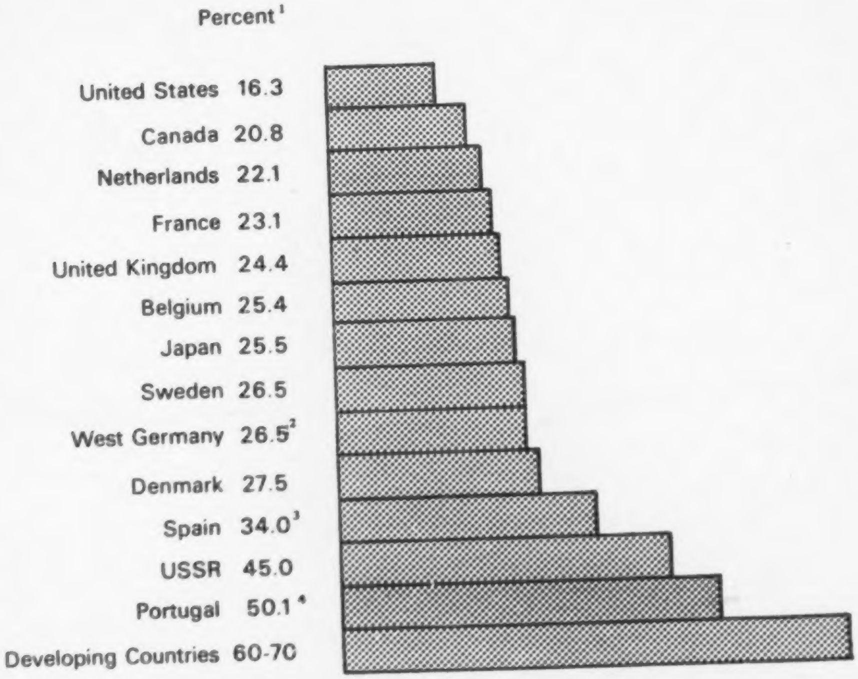
Other costs include depreciation, rent, advertising and promotion, interest, property taxes and insurance, accounting and professional services, and many miscellaneous items. 1980 preliminary.

Components of U.S. Farm Food Expenditures

Item	1973	1974	1975	1976	1977	1978	1979	1980	1981
	- - - Billion dollars - - -								
Farm value	51.7	56.4	55.6	58.3	58.0	69.4	78.1	81.4	85.2
Labor 1/	39.7	44.3	48.7	53.7	58.4	65.3	71.6	79.1	87.9
Packaging	9.4	11.8	13.5	14.6	15.2	16.3	18.3	20.9	23.0
Transportation	6.4	7.5	8.5	9.1	9.8	10.3	11.7	13.9	15.1
Fuels & electricity	2.8	3.7	4.6	5.0	5.6	6.2	7.3	8.6	10.3
Corporate profits before taxes	5.4	6.1	7.5	7.6	8.0	9.0	9.9	11.0	12.0
Other	23.4	24.8	30.6	35.4	37.3	37.8	41.1	45.1	51.5
Total	138.8	154.6	167.0	183.3	192.3	214.3	238.0	260.0	285.0

1/ Labor used in processing and marketing.

Share of Total Private Consumption Expenditures of Food, Beverages and Tobacco, 1978



[1] Excludes food, beverages, and tobacco purchased in restaurants and hotels as well as most institutional purchases, unless otherwise indicated. [2] Includes purchases in restaurants. [3] 1976. [4] 1975.

Source: Organization for Economic Cooperation and Development (except USSR and Developing Countries which are USDA/ESS estimates).

SUBMITTED QUESTIONS

Senator COCHRAN. Well, we appreciate very much your being here and helping with our hearings. We will submit additional questions to you to answer for the record.

Again, Mr. Secretary, we thank you for your cooperation.

Secretary BLOCK. Thank you, Mr. Chairman.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

OFFICE OF THE SECRETARY

QUESTIONS SUBMITTED BY SENATOR COCHRAN

FOOD STAMPS

Question: The Administration is proposing $2.3 billion in new food stamp cuts in Fiscal Year 1983. These cuts are in addition to the more than $2 billion enacted last year. Assuming Congress goes along with these rather drastic cuts and all the proposed legislative changes, do you believe that the "truly needy" in our Country would still be served and would not suffer loss of or severe cutbacks in benefits?

Answer: First, it should be remembered that one basic aim of the Administration's budget proposals is to reduce government deficits and thereby help reduce the rate of inflation. So far the Administration has been fairly successful, and if there is one major lasting benefit to the poor on fixed incomes, it is reduced inflation. Reducing inflation cannot be totally separated from the success of last year in reducing the rate of increase in the total budget, as well as food stamps.

Second, changes in the Food Stamp Program enacted last year and those proposed this year are designed to slow the growth of program spending within a framework which aims at simplifying program administration, reducing the potential for fraud and abuse, and targeting program resources on those most in need. More than $800 million in savings in the 1981 Reconciliation and Farm Acts are expected from provisions which address fraud, waste, abuse and error in the program. These provisions include, among others, prorating benefits in the month of application, improved recovery of overpayments, computer matching, and increased penalties for fraud.

In the recent budget proposals, over 20 percent of total savings are derived from the elimination of benefits overissued to eligible households or issued to ineligible households. These reductions will not affect the legitimate entitlement of any participant. Other cost-saving proposals are directed in a progressive manner. This means that those with smaller incomes lose a smaller percentage of total benefits than those with larger incomes. More than one-half of households with incomes exceeding the poverty line will become ineligible for program benefits and an additional 29 percent in this income bracket will lose more than $20 a month in benefits. In contrast, almost two-thirds of households with incomes less than one-half of poverty will be unaffected by the major proposals.

On October 1 of this year, the basic guarantee will increase by approximately 11 percent. In view of this and the overall design of program changes enacted last year and proposed this year, the Department believes that the "truly needy" are protected by the Food Stamp Program.

NEW FEDERALISM

Question: Some experts fear that if the Administration is successful in returning welfare programs to the State governments, States would let food stamp payments fall off in the future, just as they have Aid to Dependent Children (AFDC) in the past. The Office of Management and Budget Assistant Director Richard Nathan has said, "turning welfare and food stamps back to the States goes against the grain of history. It would create a vicious competition among States to push out and keep out the most vulnerable groups -- working-age poor people and their children" by failing to provide adequate benefits. What is your feeling on this?

Answer: One key feature of the New Federalism proposal being debated is the sorting out of appropriate Federal, State and local government responsibilities. We believe that State and local governments can be more responsive to the needs of low-income households. As the proposal takes shape, I am sure the Administration will remain cognizant of the concerns you have expressed and design any swap proposal with certain basic recipient protections such as maintenance-of-effort and hold harmless requirements.

U.S./SOVIET UNION GRAIN AGREEMENT

Question: The United States and the Soviet Union are in the last year of a six-year grain export agreement, and the President has suspended negotiations of a new agreement in response to the imposition of martial law in Poland. What is the status of another agreement with the Soviet Union?

Answer: The postponement of talks on a new agreement was included in the seven-point sanction program announced by the President on December 29, 1981, in response to events in Poland. Talks have not been rescheduled as yet.

Question: What is the outlook for resumption of these negotiations?

Answer: We are optimistic about prospects that a new agreement can be negotiated before October 1. Talks were simply postponed last December until a more appropriate time for negotiation.

Question: If we don't have an agreement worked out by this fall, what effect will this have on our farmers?

Answer: Even without a new agreement, the Soviets will be able to purchase grain from the U.S. market, just like any other customer. The effect on farmers of trade without an agreement will depend, to a large extent, upon how much the Soviets are willing to purchase under such conditions. In the past, the Soviets have expressed a preference for trade within the framework of an agreement so that they can plan the development of their livestock industry more efficiently. Nevertheless, there would be no restrictions on their purchasing in the U.S. market in the absence of a new agreement.

Question: How much grain has the Soviet Union purchased this year?

Answer: Through March 18, 1982, the Soviets had purchased 13.7 million metric tons of grain for delivery during the sixth year (October 1981 - September 1982) of the US-USSR grain supply agreement.

Question: Under the current agreement, how much grain could the Soviet Union purchase?

Answer: During the regular, semi-annual grain consultations held in Moscow last fall, it was concluded that, in addition to the 8 million tons already provided for in the long-term agreement, the U.S. would make available a further amount of 15 million tons for sale by U.S. exporters to the Soviet Union for shipment during the sixth agreement year.

Question: If the President should impose stronger sanctions against the Soviet Union and should those sanctions include agriculture, what immediate actions would have to be taken with regard to agriculture? How would this impact on our farmers in this crop year?

Answer: The 1981 Farm Bill requires USDA to develop a comprehensive contingency plan to alleviate the adverse impact of agricultural embargoes on farmers and the agricultural community. The Department is working to comply with that provision of the Farm Bill. The current farm legislation provides a number of options which could be exercised. These will be considered carefully. However, in developing such a plan the Department wishes to avoid the prospect of making it easier to impose embargoes. At this point, it does not seem wise to rush into any plan that would lock us into a course of action that might not be appropriate to the circumstances if the plan were needed.

Question: You have been quoted as saying, "we are aggressively seeking more foreign markets for U.S. commodities." Would you please identify some of the actions and efforts to which you refer in that statement?

Answer: As you know, substantial, sustainable export growth is essentially a long-term proposition. Sudden, dramatic gains are rare. They are the product of unusual circumstances such as the world crop shortfalls of the 1970's, or -- going back in history -- the relief shipments of the mid-1940's and mid-1960's.

President Reagan's lifting of the embargo on agricultural sales to the Soviet Union last April was a definite stimulus to exports.

That decision on behalf of American agriculture, and the subsequent one-year extension of the grain sales agreement, opened the gate for sales to the Soviets of about 14 million tons of wheat and corn, 700,000 tons of soybeans, and lesser amounts of other U.S. agricultural products since the embargo was lifted.

That is business that we vitally need. Unfortunately, it was preceded by heavy costs in lost farm income, erosion of confidence in the United States as a supplier, and increased competition in world markets that was caused by the embargo that the President revoked.

The campaign to expand the export momentum has three primary thrusts: (1) direct personal approaches to new markets: (2) targeted market development planning and execution, and (3) a concerted, governmentwide effort to remove barriers to trade with U.S. agriculture's two largest customers, the European Community and Japan.

USDA studies show that the increase in competition since the embargo was invoked in 1980 may be the principal factor limiting our exports of primary commodities this year.

We are making a major effort to meet the competition head-on. We are well into a campaign to increase exports of grains and oilseeds by targeting for intensive market development emerging markets with identified growth potential and a strong competitor presence.

As a first step, we send a joint government/industry team to the target country. The team's job is to identify the import wants and needs, and the problems of trade in that country and find out what can be done to help them increase their imports of U.S. commodities.

Thus far, we have sent these market development teams, each of which includes producer representation, to 12 countries in Africa, Latin America, and the Far East. I have made three market expansion trips myself, including a joint mission with Secretary of Commerce Baldridge to West Africa.

Almost without exception, the reaction of host country government and trade officials with whom the teams have met has been positive; their hosts have been pleased -- and in most cases surprised -- that the U.S. Government and the private agricultural sector are teaming up to better serve their import needs.

Already there have been positive results. In China, for example, agreement was reached for U.S. wheat, feed grains, and soybeans market development cooperators to open offices. Plans also are underway for the construction in Beijing of a pilot flour mill and a demonstration noodle plant.

Elsewhere, during team visits a P.L. 480 agreement for wheat sales to Morocco was signed and export credit guarantees to Brazil were increased.

The real proof of this team approach will lie, of course, in the follow-up, market by market, to the initial contacts. We are doing that, and we are confident that the result will be better trade servicing, and credit and other aids tailored more specifically to growth potential as a consequence of better understanding of the market and more precise market development planning.

With the constraints that the economic climate has placed on government resources, planning has become more than ever the key to success in market development. To get the most from what we have, it is absolutely necessary to know what countries and what commodities offer the best potential and what tools will do the best job.

Over the past 12 months, the Department has -- in its Foreign Agricultural Service -- developed a planning system to answer those questions in a quantifiable way.

Very briefly, it works this way: using computer technology and with extensive participation by market development cooperators, we are able to select export commodities by country, pinpoint the constraints to export growth of each, and identify the best course to take to increase sales. From there, we are able to project in dollar terms the results we could expect from investment of market development time and money.

As most of you know, our market development cooperators are nonprofit agricultural producer and trade groups organized along commodity lines to expand export markets for their particular commodity. Their work is supervised by the Foreign Agricultural Service and funding is shared. These groups have been a mainstay of the USDA market development effort for 25 years, and we currently have joint projects with 54 cooperators working in more than 80 countries.

Under the new planning system, commodity and marketing specialists from Government, the private trade and the cooperator associations work together to analyze the constraints to export growth of U.S. commodities in each foreign market. Credit needs, market access and other problems are analyzed and assessment is made of market development activities that could overcome the constraints.

The result is a package of impediments to export growth and ways to overcome them. From these we can rank by priority the markets and activities on which to focus our resources -- personnel, trade barrier removal, direct market development activities, and credit.

We also are paying special attention to increasing exports of value-added products, and encouraging private industry to participate, with help from state departments of agriculture. Expanding this business, now worth $12-13 billion a year, would create processing and related jobs and add to U.S. agricultural export earnings.

Credit, both short and long-term, has been important to agricultural market development since P.L. 480 -- the Agricultural Trade Development and Assistance Act -- became law in 1954, accounting for around a third of U.S. agricultural exports for several years after that.

P.L. 480 was a substantial factor in the development of U.S. markets that today are worth more than a billion dollars -- Korea and Taiwan are two examples. Today, less than 5 percent of U.S. exports are made on concessional terms, but credit continues to be important to the movement of U.S. commodities and to export development.

As you know, the President last year authorized an increase of $500 million in authorizations for the Commodity Credit Corporation GSM 102 program of short-term export credit guarantees spread over fiscal years 1981 and 1982. We have moved as quickly as possible to make full use of the total authorization of $2.5 billion for this fiscal year.

Credit guarantees last month covering a wide range of commodities for shipment to Portugal, Indonesia, Nigeria, and Uruguay brought the commitments for the current year to $1.8 billion. We plan to commit the full amount as soon as possible.

The Congress made almost $700 million available for P.L. 480 concessional sales this year, and almost the full value has been allocated; a minimum reserve is held for unforseen needs. We recognize the long-term market development value of P.L. 480 assistance, but we are exploring ways to provide some more immediate returns to U.S. agriculture from these investments.

For the first time, a P.L. 480 agreement -- the one signed with Egypt in February of this year -- was accompanied by a letter of intent from the recipient government assuring that a fair share of its commercial imports would come from the United States.

We are studying the possibility of applying similar assurances to our technical and scientific assistance programs in developing countries.

One of the effects of the downturn in world economic growth has been to exacerbate protectionism and other trade-disruptive tendencies among some of our trading partners, making effective trade policy more than ever necessary to export expansion.

These tendencies have been increasingly apparent in the policies of the European Community (EC). We are especially concerned about an excessive and growing use by the EC of export subsidies and threats to access to the EC market for U.S. export commodities.

There is no question that the EC use of subsidies, provided through the Common Agricultural Policy, has hurt U.S. agriculture. The subsidies interfere with U.S. trade in other countries and put downward pressure on U.S. prices. USDA analysis indicated, for example, that increased EC exports of subsidized wheat cost U.S. producers 50 cents a bushel on their wheat crop last year, a loss in net income of $1.7 billion.

The aggressive EC use of subsidies is not confined to grains. The EC has moved from a substantial importer to a significant exporter of a number of major agricultural products, largely through the use of subsidies. These include beef and veal, wheat, sugar, and poultry meat.

The United States also is concerned about access to the EC market itself for many products, which are protected by variable import levies and other devices.

The most pressing concerns in terms of potential cost in U.S. exports are EC discussions of an internal tax on vegetable oils, which would threaten a U.S. market worth over $3 billion for soybeans and soybean products, and talk of impeding access for nongrain feed ingredients, a market worth about $700 million yearly.

The decision was made early in this Administration that the United States would no longer tolerate what we consider the unfair trade practices of the EC.

It was recognized that the "tut-tut", fragmented approach of the past, in which U.S. industrial interests were likely to go one way and agriculture another, did not work.

To focus these efforts, USDA took the lead in developing a comprehensive interdepartmental strategy for US-EC trade relations. This plan was approved at the Cabinet level, and for the first time the United States is taking a unified, governmentwide approach to the problems of agricultural trade with the European Community.

Since last spring, our message on trade policy has been carried to the Community by Under Secretary Lodwick and me, by Secretaries Haig and Baldrige, Ambassador Brock and others in joint meetings and individual visits.

The message is simply that the United States will no longer tolerate the trade disruptions caused by unfair EC practices. We are willing and eager to work with the EC to solve trade issues, but if that fails we are prepared to defend our trading rights.

We were very pleased last summer when, after vigorous U.S. representations, the Community laid aside, at least temporarily, its proposal to impose an internal tax on vegetable oils.

We are pleased, also, with the results of the historic first meeting in Brussels in December of Secretary Haig, Ambassador Brock and myself with President Thorn, Agriculture Commissioner Dalsager and other high-level Community officials.

During this very frank discussion, it was agreed that agricultural issues were the most difficult and would require priority efforts for resolution.

We met again in February when, as you know, members of the Congress joined in expressing the U.S. resolve to protect our trading rights. Further discussions are tentatively set later this month.

We are backing up these talks with action. Last month, for the first time since the passage of the Trade Act of 1974, the U.S. brought a complaint against the EC before a panel of the General Agreement on Tariffs and Trade (GATT) in response to a petition filed under Section 301 of the Act for relief from unfair trade practices.

The complaint, filed more than six years ago, was made by the Miller's National Federation protesting EC subsidies on wheat flour. The panel convened on February 24 in Geneva and will hear further testimony March 11. Similar petitions are in the GATT consultation process covering poultry, canned fruit and raisins, pasta products and sugar.

We also are actively pursuing a 301 petition filed by the U.S. citrus industry in an effort to settle a long-standing dispute over preferential EC tariffs on Mediterranean citrus products.

As you know, our primary trade issue with Japan is market access, and we are pushing the Japanese hard to liberalize imports of both agricultural and industrial products.

In Tokyo last October, I pressed for total removal of Japan's import quotas on beef and citrus products and for them to implement the agreement on U.S. leather imports and ease restrictions on a number of other agricultural products.

We continued this pressure in the ensuing months. As a result, Japan announced a list of measures to ease nontariff barriers, including 36 that affect agricultural trade. This is a useful first step, but it does not go nearly far enough. The agricultural import quotas were not addressed, and we will be making a major push for further liberalization in the months ahead.

The Administration is working within the established rules to resolve the trade problems facing agriculture. The GATT system is far from perfect, but we plan to exhaust all its possibilities. It is the only mechanism standing between a rational system of world trade and the chaos of a trade free-for-all that would set us back 50 years.

Finally, embargoes damage the U.S. reputation, built carefully over decades, as a reliable supplier of agricultural products. The short-term effect of the embargo of 1980 has been to put U.S. agriculture in the role of a residual supplier to the Soviet Union, and we don't know if we can change this. We do know that almost 9 years after the soybean embargo of 1973, the U.S. share of world trade in soybeans and products has slipped from 85 percent to 72 percent.

This negative image has been of very deep concern in the Department of Agriculture. We have made supply assurange a principal objective on every occasion with customers and potential customers.

We have studied the provisions of the Agriculture and Food Act of 1981 that call for the development of embargo contingency plans. There appear to be many variables that would bear on the situation. There are global weather, global supplies, prices, the embargo targets, the nature of the embargoed commodities, their importance to U.S. agriculture and its supporting industries, quantities already in the export pipeline, and other uncertain factors. The Department, I believe, would be able to move quickly in keeping with the requirements of the Agriculture and Food Act to protect farm income and minimize disruption in the event such action became necessary. And let me emphasize this: I am convinced that such a situation is highly unlikely. We are bullish on the prospects for the future of U.S. agricultural export growth. World demand for food is rising, and it is rising fastest in the markets we have targeted for the most intensive market development attention. Barring global disaster, this demand will continue to rise.

FEDERAL CROP INSURANCE CORPORATION - REORGANIZATION

Question: Yesterday, you announced the transfer of the Federal Crop Insurance Corporation from the Under Secretary for International Affairs and Commodity Programs (Seeley Lodwick) to the Under Secretary for Small Community and Rural Development (Frank Naylor). What was the rationale for this change?

Answer: The transfer of the Federal Crop Insurance Corporation from the Under Secretary for International Affairs and Commodity Programs to the Under Secretary for Small Community and Rural Development will provide improved balance by grouping together those agencies which offer essentially financial programs (Farmers' Home Administration, Rural Electrification Administration, and now, the Federal Crop

Insurance Corporation). The transfer will also allow agencies reporting to the Under Secretary for International Affairs and Commodity Programs to concentrate on production programs to meet growing demand and on developing new markets for farm commodities.

Question: What impact will this have on the working relationship between Federal Crop and the Agricultural Stabilization and Conservation Service in getting this program on track? (ASCS will still be under Seeley Lodwick)

Answer: The transfer will have no effect on the working relationship between the Federal Crop Insurance Corporation and the Agricultural Stabilization and Conservation Service.

NEW ADMINISTRATOR - SOIL CONSERVATION SERVICE

Question: Yesterday, you announced that the head of the Soil Conservation Service, Norman Berg, is being replaced by Peter Myers, a farmer from Missouri. What was your reasoning for this action?

Answer: This appointment fulfills a campaign pledge of President Reagan to place farmers and those who understand farming in policy positions at the U.S. Department of Agriculture. Mr. Myers is an active conservationist with a wealth of practical experience. He is a leader in the farm community and a dynamic man who will mobilize the Soil Conservation Service.

Question: What is Mr. Myers' background in the area of conservation?

Answer: Prior to his appointment, Mr. Myers was a member of the Missouri Conservation Commission. He operates a 1,100 acre farm in southeast Missouri on which he has employed conservation tillage measures for the last 15 years. Mr. Myers also graduated with honors from the University of Wisconsin and has been an active farmer since 1955.

Question: I have received concern that this action could result in some of the State Directors being replaced. Is there any truth to this rumor?

Answer: There are no plans to make any personnel changes of this sort at this time.

FARM CREDIT

Question: Reports have indicated that in the last three months of last year, many farmers who faced insurmountable credit problems involuntarily turned their farms over to the Farmers Home Administration. Yet, the Farmers Home Administration has noted that the number of "involuntary conveyances" was fewer than the total for the previous 12 month period.

Farmers Home Administration Administrator Shuman has said that the liquidations, viewed as one step short of foreclosure, are in addition to actual foreclosures on Farmers Home Administration borrowers. Do you have any statistics on the number of liquidations and foreclosures in fiscal year 1981 and in fiscal year 1982?

Answer: We are running about the same this fiscal year as we have in prior fiscal years, a little bit higher, but not dramatically so. Our report shows that from October 1, 1981, through February 28, 1982, FmHA completed liquidation action on 342 accounts. For the same period of time, other lenders having loans with FmHA borrowers under the subordination authorities completed action on 201 borrowers. This is a total of 543 borrowers who have been involuntarily liquidated. Also, 1,315 farm borrowers voluntarily liquidated their farm operations, because they could not make it or they wanted to leave farming for any number of reasons.

Question: United States industry and Government officials unanimously agree that credit will be extremely tight for farmers this year, adding to the stress to which the farm economy has been subjected for three consecutive years. Will the fiscal year 1983 proposed budget cuts hurt our new and/or young farmers, many of whom are good farmers?

Answer: The farm operating loan program was increased by 60 percent in FY 1982 and a request for an additional $135 million is included in the budget for FY 1983. In addition, we hope to serve the beginning young farmer by instituting a new special development program that will make available the management expertise of all USDA agencies.

Question: Can we and how can we assure our farmers that adequate credit resources are available?

Answer: We are using the various authorities of FmHA to make additional loans, subordinations, rescheduling, reamortizing and deferring accounts when appropriate. In many cases we are working with other lenders to meet the most essential needs of those farmers. In fact, the Secretary met with representatives of the farm credit system and the commercial banking industry to establish the necessary cooperation between the various lenders.

Question: What advice would you give a relatively new or young farmer at this time?

Answer: During the present credit stress, we would suggest to new and young farmers, and even established farmers, that they work hard at improving their efficiency through application of sound production and financial management practices. We suggest that credit be used wisely, with purchases for expansion, development and new machinery and equipment very carefully considered prior to making such commitments. We believe that there will be definite improvement in the farm economy in the immediate years ahead, along with overall improvement in the Nation's economy. There is opportunity in farming for the hardworking, efficient operator.

PROPOSED GRANTS TO STATES PROGRAMS

This Administration is proposing to replace the school breakfast and child care programs with a General Nutrition Assistance grant to the States, and to transfer the Women, Infants and Children (WIC) Program, the Commodity Supplemental Food Program

(CSFP), and the food component of the nutrition program for the elderly to the Department of Health and Human Services (HHS) in Fiscal Year 1983.

Question: Since the grant-to-States would be a new type of approach for these programs, I wonder how much study or effort has been devoted to these proposals?

Answer: The Administration is committed to giving States maximum flexibility in providing assistance and services to their citizens. We feel that grants-to-States is the most desirable method of achieving this goal. The success of other grants-to-States such as Title XX Social Services Block Grant indicates the positive potential of this funding procedure.

Question: Do we know, in fact, that this approach will work without being detrimental to those recipients or beneficiaries of the programs?

Answer: As with any new endeavor, we cannot predict exactly what the outcome will be. However, we do believe that existing programs do not meet the needs of their intended beneficiaries as efficiently as they might. We believe that consolidating several programs that are serving similar functions will result in a much more efficient use of available resources. In addition, allowing the States discretion to determine their own priorities is a much more responsive treatment of differences among the States.

FEDERAL REGULATION

Question: Will there be any Federal strings attached to the grants to States?

Answer: Although the guidelines have not yet been finally cleared within the Administration, it is expected that only minimal Federal regulation will be imposed upon the States.

Question: Will there be any type of followup or assessment made of the States once the grants have been made?

Answer: Plans for the new grant programs provide for some type of accountability assessment to insure that the grant monies are used for purposes for which they are intended.

Question: Will the States be required to submit some type of operational plan, such as required of Puerto Rico?

Answer: Final details have not been worked out as the legislative proposals are currently being cleared within the Administration.

DISASTER AID

Question: I understand that USDA has ended the emergency program, by a notice in the March 9 Federal Register, to help farmers buy feed for livestock when natural disasters reduce their crops. Will you please explain your position on this program and why it has been terminated?

Answer: The average annual cost of the emergency feed program for fiscal years 1978 through 1981 was $148.0 million. Annual program costs have varied from a high of $328.5 million in FY 1981 to a low of $23.4 million in FY 1980. In the current economic and budget environment, the emergency feed program is considered a low priority use of taxpayer funds. Considering the urgent need to reduce the Federal budget in FY 1982 and subsequent years, USDA decided to terminate this low priority program in order to contribute to the President's budget reduction objective.

Question: Do you foresee any circumstances under which you would reinstitute this program?

Answer: It would not be likely that we would reimplement the program, relying instead on the standard Farmers Home Administration loans and other existing programs to help farmers during difficult times and certain kinds of emergencies. In the severest of circumstances, such a widespread disaster affecting a large quantity of the livestock feed produced in the United States, we possibly would consider offering the livestock feed program.

ACREAGE REDUCTION PROGRAM

Question: One of the major problems facing agriculture right now is oversupply of most agricultural products. For example,

a. Wheat -- Carryover stocks are expected to be 1.1 billion bushels this fall.
Only the third time in 20 years that stocks have exceeded this level.
Storage costs on the 500 million bushels in farmer-held reserve will cost the Government $145 million this year.

b. Corn -- Stocks this fall projected to be 2.1 billion bushels. This is double last year's level.
Government storage payments on the 1.2 billion in the farmer-held reserve will be $330 million.

c. Rice -- Stocks this fall are projected to be a record 51 million hundredweight. This is three times last year's and 10 million hundredweight above the previous high.

d. Cotton -- Ending stocks this fall are projected to be 6.4 million bales. This is more than double last year's level and represents a six-month supply.

I know you announced an acreage reduction program for each of these crops. What level of participation are you expecting?

Answer:

a. Wheat. Participation in the 1982 wheat program is expected to be between 35 and 45 percent of planted acreage. The following is a table showing expected levels of participation by area of the country.

Area	Range of Participation
Pacific Northwest	35%-50%
Southern Plains	35%-45%
Northern Plains	65%-75%
Southwest	25%-35%
Corn Belt	32%-42%
Southeast	10%-18%
Northeast	15%-25%

b. Corn. Participation in the 1982 corn program is expected to be between 35 and 45 percent of planted acreage. Participation in the sorghum and barley programs is expected to be 5 to 10 percent greater than corn, while oats participation will probably be 5 to 10 percent lower.

c. Rice. With current farm prices well below the 1982 crop target price, excellent producer participation is expected. Current estimates indicate that producer participation will be between 60 and 65 percent. Actual participation will, of course, depend on farm prices during the next few months.

d. Upland Cotton. Recent indications are that participation in the cotton acreage reduction program will be very good, probably 80 percent or more. Depending upon weather conditions, production should be reduced by 2 to 4 million bales from last year's level.

Question: Will the reduction expected be enough to get the supply of these crops back in line with demand?

Answer:

a. Wheat. Based on expected participation in the acreage reduction program, 1982 crop production may be 80 to 120 million bushels below the 1981 crop production. Given this production decline, total 1982/83 marketing year supplies are expected to be about 2 percent lower than for 1981/82. This reduced supply level is considered in line with demand. It also assures the maintenance of reasonable carryover stocks.

b. Corn. Based on expected participation in the acreage reduction program, 1982 corn production should decline by 150 to 250 million bushels and total feed grain production should decline by 5 to 7 million metric tons. However, sluggish worldwide economic conditions may continue to dampen the demand for feed grains. Unless there are unexpected crop shortfalls in 1982, feed grain supplies will continue to be more than adequate.

c. Rice. The 1982 rice program should reduce production by 25 million hundredweight, but the large carry-in stock of 51 million hundredweight will keep total supply at about 200 million hundredweight. This total supply is in excess of the projected use of about 150 million hundredweight. Unless there is a significant increase in total rice use next season, producers could experience another year of weak prices.

d. Upland Cotton. The very large projected beginning stock level for the 1982 crop is the result of heavy 1981 crop production coupled with low domestic consumption. Ending stocks for the 1982 crop will depend on both weather and growing conditions and economic factors. However, lower 1982 production and improvements in domestic and foreign demand for cotton are expected to help decrease stocks to more manageable levels.

Question: If not, wouldn't it be advisable to announce a paid diversion?

Answer: The acreage reduction program is a self-help program whose success depends upon the participation of the farmer. We see no reason to announce a paid diversion program for the 1982 crops of wheat, feed grains, rice, and upland cotton. A diversion program is very costly. With the concern over budget deficits, the cost of a diversion program cannot be justified.

Past programs have been changed numerous times, resulting in farmer misunderstanding and confusion. This Administration has announced the provisions of the 1982 program and does not plan to revise them.

Question: There is no acreage program for soybeans. I understand that the planting intentions show a significant increase for soybean acreage this year. Isn't this going to further complicate the already surplus situation for soybeans?

Answer: This could complicate the surplus situation. The Planting Intentions Report indicated a 1.5 million acre increase in soybean acreage in 1982. Soybean acreage often increases in years when feed grain production adjustment programs are offered. Another factor that may influence the planting of soybeans versus corn is the variable costs of planting soybeans, which are about 50 percent less than those for corn. Current projections indicate an increase in soybean carryover stocks.

MILK PRICE SUPPORT PROGRAM

Question: I understand the Department has some new or more recent data available on what the milk price support program will cost this year. Can you share that information with us?

Answer: Current estimates indicate that FY 1982 CCC dairy purchases will be $2,124,140 thousand, up slightly from the FY 1981 purchases of $1,990,657 thousand. FY 1982 CCC net expenditures or net outlays for the dairy program are estimated at $1,907,989 thousand. These net expenditure estimates are basically outlays for the purchase of dairy products and payments for commercial storage, transportation, processing, and packaging offset by receipts from sales proceeds and transfers. FY 1982 unrecoverable expenses or net realized losses are currently projected to be $1,176,579 thousand. The following table provided for the record shows milk production, utilization, and CCC removals for marketing years 1979 through 1982.

MILK PRODUCTION, UTILIZATION, AND CCC REMOVALS

Item and Unit	1979-80	1980-81	Estimated 1981-82	Estimated 1982-83
Support level....(dol./cwt)	11.49/12.36	13.10	13.10	13.25
Percent of parity.....(pct)	80 adj.	80	72.9	67.4
Milk production....(bil.lb)	127.3	131.7	135.5	135.5
Farm use.........(bil.lb)	2.4	2.2	2.2	2.1
Marketings.........(bil.lb)	124.9	129.5	133.3	133.4
Beginning commercial stocks............(bil.lb)	6.6	6.1	5.2	5.6
Imports............(bil.lb)	2.1	2.3	2.4	2.4
Commercial supply(bil.lb)	133.6	137.9	140.9	141.4
Commercial use.....(bil.lb)	119.3	120.0	122.0	124.1
Ending commercial stocks............(bil.lb)	6.1	5.2	5.6	6.0
Total utilization..(bil.lb)	125.4	125.2	127.6	130.1
CCC net removals...(bil.lb)	8.2	12.7	13.3	11.3
Butter...........(mil.lb)	233	356	390	340
Cheese...........(mil.lb)	336	532	530	430
Nonfat dry milk..(mil.lb)	592	787	855	755
Evaporated milk..(mil.lb)	15	20	15	15
CCC purchases....(mil.dol.)	1,262	1,991	2,124	1,859
Net outlays--includes PL 480..........(mil.dol.)	1,031	1,934	1,941	1,838
Number of cows.....(thous.)	10,786	10,888	11,020	10,950
Milk per cow...........(lb)	11,800	12,092	12,300	12,375
Prices received by farmers:				
Manufactured grade.........(dol./cwt)	11.75	12.72	12.75	12.85
All milk sold to plants.....(dol./cwt)	12.76	13.73	13.75	13.85
Farm cash receipts........(mil.dol.)	16,070	17,893	18,530	18,680

MILK PRICE SUPPORT PROGRAM

Question: I know you had a symposium in Kansas City earlier this week to look at various alternatives to bringing this under control. Were you able to come up with some good solutions and what is USDA doing to tackle this severe problem of dairy surplus and the program's rising costs?

Answer: I was very impressed with the industry participation and suggestions presented at the symposium. Proposals presented at the symposium can be grouped into the following broad categories:

1. Assertion that there is no dairy problem; there is a farm or agriculture problem. If USDA would help other

types of farmers, resources would flow out of dairy production and back into other agricultural production.

2. Proposals to increase both foreign and domestic distribution of current and projected dairy stocks.
3. Proposals to lower the support price.
4. Industry self-help program which includes formation of a National Dairy Board to operate the program, and variations of the program containing supply management (base or quota plans) provisions.
5. A proposal to raise the minimum U.S. fat and nonfat solid content in fluid milk to the level required in California.
6. Program to reduce cow numbers through culling incentives.
7. A variable price support program, based on previous years' production.
8. A program to reduce prices through changes in pricing provisions under Federal Milk Marketing Orders.

A task force has been formed within the Department to analyze proposals presented at the symposium and to formulate recommendations for policy actions. In addition, the dairy program operations report mandated in the Agriculture and Food Act of 1981 will consider long-run issues related to dairy programs.

COMMODITY CREDIT CORPORATION REVOLVING EXPORT CREDIT FUND

Question: There are no funds included in the fiscal year 1983 budget for the Commodity Credit Corporation Revolving Fund authorized in the 1981 Farm Bill. Secretary Block, you have indicated on occasion that the Administration did not include funds because other export promotion initiatives could be just as effective.

Please identify for us these other export initiatives.

Answer: This Administration places the highest priority on expanding agricultural exports - free trade is vital to U.S. farmers. To achieve this goal, we have been discussing with the Japanese the need to reduce trade barriers; this is a market of great potential for several of our commodities and one we are determined to have access to. We have also been holding extensive discussions with representatives of the European Community; these talks have been held at the highest levels, and we are hopeful of positive results. In addition to this major effort, we have also been refining our more traditional export promotion tools. In the Foreign Agricultural Service we are developing a programing and budgeting process which will better enable us to identify by country and commodity marketing opportunities and to identify the specific steps to take to obtain results. The cooperators are actively involved in this process which we are certain will further enhance our already successful market development activities. We are making better use of our existing export programs - Public Law 480 Title I concessional sales and GSM 102 credit guarantees. We are seeking ways to use these programs as a package in combination as appropriate with commercial sales to maximize exports. Finally, senior officials of the Department have been traveling extensively promoting exports; we are glad to report that these trips have already generated positive results.

Question: Do you anticipate a request to fund this in fiscal year 1984?

Answer: While the Department did not request funding for the revolving fund due to budgetary concerns, a funding request for fiscal year 1984 may be possible.

Question: What is your assessment as to how this fund could help to boost United States agricultural exports?

Answer: The revolving fund may help increase agricultural exports in several ways. Lower interest rates, made possible by this mechanism, would provide foreign importers with additional incentives to purchase agricultural commodities from the United States on a short-term credit basis. An intermediate term credit component of the revolving fund would finance overseas market infrastructure to develop longer term trading relations with the United States and increase the ability of many countries to import, store, and distribute agricultural products on a commercial basis.

TRADE INCENTIVES

Question: Some of the United States' grain marketers have called for liberalized credit and contract terms to help foreign buyers purchase United States crops. They feel such a change in credit terms might set off a positive spark in the grain trade which, in recent months, has been stagnant. Do you have any plans along this line?

Answer: There may be possibilities for helping to expand our exports with expanded credit. We have received detailed suggestions along this line from farm and export industry groups. Our own staff people also surveyed the possibilities and we have obtained input from overseas offices. The Department is making an all-out effort to utilize the existing short-term credit guarantee program wherever advisable, and authority for extending additional guarantees is adequate at this time. Given the high interest rates associated with the loan guarantee program, demand has been sluggish. Consequently, our existing budgetary authority for three-year credit comes close to covering the current needs of foreign countries, or at least those countries which are interested in guaranteed credit. So more short-term credit with current high interest rates would probably not make a big difference. Direct credit, because of its lower interest rates, could complement our existing program and be useful in some markets; however, it would require an immediate budget outlay.

New programs with more liberal terms, such as a longer period of repayment, or reduced interest rates could expand our exports significantly, but they would also require larger budgetary outlays. Such programs would need to be directed specifically at expanding utilization in recipient countries. It is not as effective when we use credit to displace supplies from competing exporting countries in a particular recipient country, only to find the competing country's commodity show up in still another market. The Department is continuing to examine a number of alternatives and of course, to weigh them against budgetary constraints.

ECONOMIC EMERGENCY LOAN PROGRAM

Question: On February 24, I, along with 13 of my colleagues, wrote Secretary Block urging him to use all the authorities given to him in the Farm Bill to help improve the depressed farm economy. Included in the letter was a specific recommendation that the economic emergency loan program be used to help farmers who are unable to get credit because of the current economic stress on agriculture.

I received a letter back on March 15 outlining the guidelines governing the use of the economic emergency funds. The guidelines are as follows:

"The Secretary may make available Farmers Home Administration economic emergency loans when, in his judgment, an agricultural economic emergency exists in a State as reflected by various factors, including: current loan to deposit ratios of rural banks in that state; declines in the state's net farm income; variations in the crop yields of the major crops within that state; and a significant upward change in the number of classified loans held by conventional or Farm Credit System's agricultural lenders in the state.

Furthermore, in states eligible, before an applicant can be considered eligible for an economic emergency loan, the applicant must be first determined ineligible for a regular operating loan and a disaster loan."

I ask that both letters be made part of the hearing record at the conclusion of my submitted questions.

Has the money for this program been released? If not, when?

Answer: At the present time, Farmers Home Administration has available all the lending authority needed to meet current farm loan demand for FmHA eligible borrowers. Therefore, no funds have yet been released for the economic emergency program. However, this situation will continue to be closely monitored.

Question: How many states will be eligible for economic emergency loans under these guidelines?

Answer: States will become eligible for this program after a Secretarial designation is made. Farmers Home Administration still has almost one billion dollars available for farm operating loans which may be used for the same basic purposes.

Question: Is there any delay in releasing the fund because the Department feels that no economic emergency exists in the farming community?

Answer: We feel that ample funding is still available from the farm operating loan program, which serves all rural areas, to meet the current overall demand for FmHA eligible borrowers.

LETTER SUBMITTED BY SENATE AGRICULTURE COMMITTEE

February 24, 1982

Honorable John R. Block
Secretary of Agriculture
Washington, D.C. 20250

Dear Mr. Secretary:

We urge you to implement the Economic Emergency Loan Program for the 1982 crop year as soon as possible.

The Agriculture and Food Act of 1981 extended the Economic Emergency Loan Program through September 1982 and limited the total new loans that could be made to $600 million. The program is, of course, one of several programs in the 1981 Act designed to assist farmers and assure consumers an abundance of food and fiber.

Specifically, the Economic Emergency Loan Program is designed to assist farmers in maintaining their farming operations. Under the program, you are authorized to make and guarantee loans to farmers who are unable to obtain sufficient credit elsewhere due to economic stresses, such as a general tightening of agricultural credit or an unfavorable relationship between production costs and prices received for agricultural commodities.

Current high interest rates combined with depressed commodity prices have placed the Nation's farmers in serious financial difficulties with many of them unable to obtain sufficient credit to finance the production of their 1982 crops.

We believe it imperative that you use all of the programs at your command in alleviating the problems facing our farmers, including the Economic Emergency Loan Program.

Sincerely,

Walter D Huddleston
Thad Cochran
John Melcher
David Pryor
Tom Eagleton
Howell Heflin
John C. Stennis
David Boren
J. Jesse Helms
Roger W Jepsen
Alan J Dixon
Rudy Boschwitz

LETTER SUBMITTED BY SECRETARY JOHN R. BLOCK

March 15, 1982

Honorable Thad Cochran
Chairman, Subcommittee on Agriculture,
Rural Development, and Related Agencies
Committee on Appropriations
United States Senate
Washington, D.C. 20510

Thad

Dear Mr. Chairman:

On February 18, 1982, in my appearance before the House Agriculture Committee, I stated my intention to develop and announce guidelines for the Economic Emergency Program.

At this time, there appears to be ample funds available to meet agricultural credit needs. The Department is cooperating with the American Bankers Association, the Independent Bankers Association of America, and the Farm Credit System to monitor the situation and provide funds for eligible individual farmers.

The following guidelines will govern the use of the Economic Emergency program:

> The Secretary may make available Farmers Home Administration economic emergency loans when, in his judgment, an agricultural economic emergency exists in a State as reflected by various economic factors, including: current loan to deposit ratios of rural banks in that State, declines in the State's net farm income, variations in the crop yields of the major crops within that State, and a significant upward change in the number of classified loans held by conventional or farm credit system's agricultural lenders in the State.
>
> In eligible States, before an applicant can be considered eligible for an economic emergency loan under FmHA regulations that applicant must first be determined ineligible for an FmHA operating loan (OL) or an FmHA emergency loan (EM).

We are preparing the regulations needed to implement these guidelines. They will be issued shortly.

Sincerely,

John Block

JOHN R. BLOCK
Secretary

QUESTIONS SUBMITTED BY SENATOR ANDREWS

FmHA FARM PROGRAM AVAILABILITY

Question: As you are well aware our farmers are facing a serious credit crunch. Many farmers will need more credit this year than they have in the past, and this is on top of drought and poor commodity prices.

I am pleased that the funding for operating loans has been increased to help our farmers make it through these bad times.

Do you expect the operating loans available to be sufficient to provide all eligible farmers with the loan he or she needs?

Answer: After assessing the remaining available funds for the farm operating program and the current demand level, we feel that adequate funds remain to meet anticipated needs. In addition, FmHA will continue to work with the private credit institutions to help our present borrowers obtain a portion or all of their financing from that sector. This effort includes the subordination of our security position, if necessary.

Question: Will you release the $600 million in Economic Emergency loans if the operating loan funds are not enough?

Answer: The economic emergency loan program is only one avenue available to meet the needs of eligible applicants. We are also pursuing a concerted effort to increase the involvement of the commercial banking industry and the farm credit system. Taking this into consideration along with the remaining balance of farm operating loan funds, we feel that adequate funding will remain available for this fiscal year.

Question: Under the regulations which would cover the economic emergency loans which were just published, who would qualify for one of these loans?

Answer: Based on guidelines recently announced governing this program, FmHA is developing new regulations. We anticipate publishing them in the Federal Register soon.

Insured and guaranteed economic emergency loans will only be made available in those states receiving Secretarial designation. To qualify for an insured loan, the applicant must be a presently indebted insured economic emergency loan borrower, who is unable to obtain credit from other lenders with or without a subordination of FmHA's lien position, and be unable to obtain an operating loan or EM disaster loan from FmHA. To qualify for a guaranteed loan, the applicant must be a new applicant or a presently indebted guaranteed economic emergency borrower who cannot obtain sufficient credit from other lending sources without an FmHA guarantee.

Question: In your statement you indicate that the debt-asset ratio for the farm sector as a whole is about 17 percent, which you say compares favorably to other sectors of the economy.

1. What is the return on investment for our farmers?
2. Would you compare this with recent years?
3. What is the return on investment for other segments of our economy?

Answer: The following table summarizes returns on investment for farmers and manufacturing corporations:

Year	Farm return on investment 1/	Manufacturing returns on investment 2/		
		All manufacturing corporations	Durable goods industries	Nondurable goods industries
1974	6.2	14.9	12.6	17.1
1975	5.26	11.6	10.3	12.9
1976	2.8	13.9	13.7	14.2
1977	2.2	14.2	14.5	13.8
1978	3.5	15.0	16.0	14.2
1979	3.7	16.4	15.4	17.4
1980	1.5	13.9	11.3	16.3

1/ Income return as a percentage of equity value. Figures obtained from Economic Indicators of the Farm Sector, ERS Statistical Bulletin #674.

2/ Ratio of profits after income taxes (annual rate) to stockholders' equity. Figures obtained from the FY 1983 Economic Report of the President, p. 331.

AGRICULTURAL CONSERVATION PROGRAM

Question: While I am pleased with the proposed increase for Agricultural Research, I have grave concerns over some of the cuts the Administration has proposed. You have called for drastic cuts in our soil and water conservation programs. The Agricultural Conservation Program has played an important role in helping our farmers take care of this country's most precious resource -- our land.

In cutting the ACP funds you indicate that only about one-half of all practices were applies on that that was eroding excessively. Wouldn't we be better off putting conservation practices into effect before the land was eroding excessively -- an ounce of prevention is worth a pound of cure?

Answer: While it certainly would be desirable to prevent problems rather than attempt to solve them after the fact, it is also necessary to realize that the U.S., at this time, has a number of major resource conservation problems. On the basis of several recent studies, cropland erosion which can affect future agricultural productivity is given top priority. This and similar resource problems must be addressed before they grow worse.

Question: You say the Administration would anticipate landowners and state and local governments to increase their funding for conservation practices. Do you really think that our farmers can afford to increase their funding with the prices they are receiving today?

Answer: As the general economy improves through the remainder of 1982, net farm income also should improve somewhat. Increased exports and the various commodity acreage reduction programs should also help in this respect. However, the major point is that there are a number of conservation practices such as conservation tillage or crop rotation which are relatively inexpensive. While it is true that their main benefit is in the long-term maintenance of agricultural productivity, some can produce immediate benefits resulting in higher net income. Conservation tillage in particular can reduce production costs.

RESOURCE CONSERVATION AND DEVELOPMENT PROGRAM

Question: Once again the Administration has called for termination of the Resource Conservation and Development Program, stating that your reviews conducted in previous years failed to demonstrate that this program has made significant progress in achieving program goals. I would appreciate it if you would elaborate on that.

Answer: This policy had its beginning with a reduced budget proposal for fiscal year 1977. This was based on a study which the Soil Conservation Service conducted in 1975. The study was critical of the program in that it could not be substantiated that the program had made statistically significant progress in achieving program goals, alleviating unemployment and improving economic conditions in the RC&D areas.

Subsequent studies by both the Department and the General Accounting Office were similarly critical of the program, pointing out that the benefits of this program were difficult to pin down. Consequently, as we evaluate the priority use of funds for the Department, it is difficult to defend continuation of the RC&D program, particularly when such continuation would entail corresponding reductions in other programs in which traditional cost/benefit analysis yields more favorable results.

WATER BANK PROGRAM

Question: I would also like to know your justification for requesting no funds directly for the Water Bank Program. I know that you have indicated that it would be incorporated with the ACP, Emergency Conservation Program and Forestry Incentives Program. However, in light of the fact you are calling only for $56 million to take care of programs that had $220 million last year, you have effectively done away with Water Bank.

There are many other cuts that I am concerned about, such as your "modest reduction" of 20 percent in water and waste disposal loans, farm housing loans, B&I loans and the industrial and alcohol fuel loans. It will, of course, be up to this committee to decide whether or not they will go along with these cuts.

Answer: The proposed program consolidation will create a single cost-share program and allow state and county offices greater flexibility in targeting limited funds to their most critical conservation needs. The Water Bank Program will not be effectively discontinued if state and county program officials decide to allocate funds to the program purposes.

WIC PROGRAM

The WIC Program is undoubtedly one of the most successful and popular programs I can recall in my 18 years in Congress. I have received virtually no negative correspondence on it, and studies have indicated that it saves the U.S. government $3 in medical expenses for every dollar we spend. The Department of Agriculture deserves a great deal of credit for the success of this program, and now you are proposing giving it up to HHS to be combined in a block grant.

Question: Was this the Department of Agriculture's idea or did you recommend keeping this program?

Answer: The idea to consolidate WIC funding in a Department of Health and Human Services grant is not new and has been considered in the past. When limited resources are available, it makes sense to combine diverse categorical programs serving essentially the same groups into one program. The proposal was developed within the Administration, and it would serve no useful purpose to try to identify one particular source of the proposal. It was developed cooperatively within the Administration.

Question: Many people are concerned over the fact that administrative expenses would increase drastically if HHS handles the program and that food would not actually get to the recipients. How do you feel about this concern?

Answer: One of the primary reasons for proposing the combined block grant for WIC and Maternal and Child Health (MCH) Programs is to lower the total administrative cost of operating separate programs. Currently WIC and MCH funds are channeled through State health agencies, but each program has its own regulatory and paperwork requirements. The combined block grant is expected to lower administrative costs by ensuring that there will be one administrative body rather than two distinct State administrations. In addition, States will have to document the purpose for which funds are spent.

Question: How would we make sure that it was nutritious food participants of these programs receive -- as is presently the case -- instead of a lot of literature and talk?

Answer: Under the combined block grant, each State will determine the importance of a supplemental food program relative to the needs of its target population and other program options. Therefore, the availability of nutritious food may vary on a State by State basis.

SUGAR BEET GROWERS IN THE RED RIVER VALLEY

Question: The sugar beet growers in the Red River Valley suffered a disaster unlike any experienced in the last 60 years. In the fall with about 45 percent of the beets still in the ground we had a 5-6 day hard freeze.

In spite of this disaster, the farmers in my area have only received about $20,000 in claims, because of the regulation writers. This is in spite of the fact that the estimated loss is $50 million.

While I know that you don't have the information on hand, I would appreciate it if you would discuss this problem with Mr. Wayne Fletcher of FCIC, who has met with the growers and promised to see what can be done administratively to correct this inequity.

Mr. Fletcher has promised an answer by tomorrow as our growers are running up against the sign-up deadline.

The insurance for sugar beet growers has proven in this case to be all but useless, and if something can't be done on the Administration level, I for one will recommend Congressional action.

Answer: This question was answered in a letter of March 29, 1982, addressed to Honorable Arlan Stangeland. The information contained in that letter follows:

We have agreed to process sugar beet claims in Minnesota, North Dakota, and other areas where disastrous freeze occurred on the following basis:

1. Federal Crop Insurance Corporation (FCIC) will obtain records of the total tonnage of sugar beets delivered by all producers prior to the freeze and after the freeze. If available, we will also obtain the tonnage that was of no value and dumped. Barring availability of the latter, we will take total tons delivered, subtract tons processed, and use the result as the total tons destroyed due to no value.

2. Using the information in item 1, FCIC will handle each insured contract on an individual basis as follows:

   a. If the producer delivered sufficient tonnage (based on sugar content) prior to the freeze to equal or exceed his third stage policy quarantee, there will be no indemnity paid.

   b. If the producer did not deliver sufficient tonnage prior to the freeze to meet the policy guarantee, FCIC will divide the total tons dumped by the total tons delivered. The percentage difference between this and 100 percent will be applied against the tonnage delivered following the freeze for each insured, again based upon sugar content, and an indemnity will be paid.

   c. If production from acreage lifted following the freeze does not meet third stage policy requirements, the acreage will revert to second stage and only the tonnage exceeding the difference between second and third stage will count.

We believe this will be a fair and equitable solution to the dilemma and we will proceed as rapidly as possible to contact each affected insured to clear up the situation.

It is our understanding some producers have cancelled their contract for 1982 and are waiting FCIC determination on their claim before reinstating. Because the sales closing date is rapidly approaching, we will handle each case under our late-filed application procedure for those producers who wish to reinstate should their claims not be handled prior to normal closing.

QUESTIONS SUBMITTED BY SENATOR KASTEN

DAIRY PROGRAM

Question: What kind of dairy program do you visualize that will equitably deal with regional differences? (i.e. Wisconsin with its 43,000 farms with an average herd size of 40 as compared to California with 5,600 herds averaging roughly 170 cows per herd.)

Answer: The current dairy price support program operates on a national basis. The Agriculture and Food Act of 1981 requires that a dairy program operations report be prepared and submitted to the Congress by the end of December. This report will describe the strengths and weaknesses of existing Federal dairy programs and the possible results of using new programs to control or minimize surplus dairy production. The report must also examine the effect of current and proposed programs on supply and demand, farm income, and consumer cost on a regional basis. Completion of this study will enable us to more equitably deal with regional differences.

Question: Do you envision the need to maintain a certain parity support price in a self-help program?

Answer: During the recent formulation and enactment of the Agriculture and Food Act of 1981, the Congress, through minimum price support provisions, indicated a willingness to base support levels on factors other than parity. Any support program, be it a self-help program or other type of program, should be based on factors which do the best job of balancing supply and demand, while also maintaining the productive capacity to meet future needs.

QUESTIONS SUBMITTED BY SENATOR EAGLETON

RURAL JOB OPPORTUNITIES AND FARM INCOME

Question: Ever since Franklin Roosevelt successfully started the Rural Electrification Administration, rural development and improving the quality of life in rural areas has been a top priority of the Department of Agriculture. The Rural Development Act which provided the Department with substantial authorities to act in this area is 10 years old this year. But this Administration, from looking at your budget, has abandoned these efforts. You have all but eliminated support for rural housing, substantially cut support for rural electric and telephone cooperatives, eliminated the business and industry loan program--and I could go on. In and of itself, these cuts are bad policy but their secondary effects may be worse. On page 6 of Dr. Lesher's testimony is a chart which quite clearly shows that it is the income being received from off-farm sources that is sustaining the bulk of our family farmers. Since 1975, over 50 percent of farmers' income has come from off-farm sources and this has gone over 60 percent in recent years. If we back off from our rural development efforts, won't we be severely threatening the continuance of job opportunities off the farm in rural areas?

Answer: We feel that a principal reason for the current economic slump, which certainly affects rural areas as well as the more industrial parts of the country, is the inflation and high taxes which we have seen over the past few years. The President has proposed the Economic Recovery Program to reverse these trends. One important element in the program is a lessening of the Federal domination of the credit market which has caused high interest rates and somewhat misallocated credit toward less productive uses. We are confident that when these factors are reversed, real sustainable economic growth will return and that employment and income in the rural sector will show a substantial increase.

Question: You indicate in your statement that "despite depressed farm income, the financial position of the farm sector is basically sound", and elsewhere proudly point out that with the $135 million increase in FmHA farm operating funds in FY 1983 "the program will reach a level of $1.5 billion, which is almost double the level achieved during fiscal year 1981", the last year of the Carter Administration. If the financial position of the farm sector is that sound, why have we found it necessary to double the farm operating lending authority of FmHA--commonly known as the lender of last resort? Is this really something to boast about?

Answer: Although the equity value in farming is the highest in history right now, the increases in farm input prices and the relatively low level of commodity prices have created somewhat of a cashflow problem for many farmers. I have met with representatives of the farm credit system and the commercial banking industry in order to help coordinate our efforts in keeping the farms operating through the current cost-price squeeze. In order to fulfill our responsibilities in this situation, I have requested substantially more for operating loan funds. As conditions improve, I anticipate that the other lenders will take over a substantial amount of this loan responsibility.

STOCKS OF FARM PRODUCTS

Question: Throughout your statement, you have indicated that excessive stocks of most farm products are having a substantial contributing factor to the current bearish markets. I do not disagree with you one bit. What troubles me is that the projections for the '82 crop are that stocks will increase even more. What does this portend for farmers' income and shouldn't a farm policy aimed at improving farm income decrease stocks, not increase them?

Answer: The fact is, no one knows whether stocks will increase or decrease by the end of the 1982 crop year. Variables such as the weather and exports cannot be accurately forecast. When we designed our program we aimed at reducing stocks, but our program decisions were necessarily based on assumptions about yields and demand. Indications are now that our program may not achieve a stock reduction. In six months, indications might be just the opposite. We announced an acreage reduction program that will help farmers achieve higher prices if they participate, and we see signs that a very significant percentage of them will participate. I think that with our program, and with an improvement in the general economic situation in the country, we will see farmers in a much better situation by this time next year.

FARM PRICES

Question: Mr. Secretary, I share your enthusiasm over the recent good news on decreases in the rate of inflation. How much of an impact have stagnant farm prices had on this decline?

Answer: They have had some impact. Last year, farm prices rose only 2.8 percent, much less than the general inflation rate. If farm prices had risen as much as other prices, the general inflation rate would have been nearly 11 percent in 1981, rather than the 10.4 percent actually recorded.

Question: Please explain something to me. Your statement indicates that "most lenders are finding ways to keep their existing borrowers in business another year." Yet even the optimistic projections for commodity prices and farm incomes for this coming year almost guarantee an economic disaster for farmers. If your current projections hold up, what is going to happen next year?

Answer: Any farm income projections for 1982 must be considered conditional. Most crops have not yet been planted. The outcome of both weather and the demand for agricultural exports will play a significant role in determining farm prices and incomes in 1982. These factors are subject to change and their effects on farm prices and income cannot be accurately projected. We are finding that input price increases are falling off significantly and this may provide some leeway for farmers who are having cash flow problems.

Farmers have gone through 2 successive low income years. Low-equity farmers and livestock farmers have been especially hard hit. Agricultural lenders, including the Farmers Home Administration, have done an excellent job in providing additional debt servicing assistance to their borrowers who are facing financial difficulties. Those farmers who face continued cash flow problems and whose equity has decreased will have difficulty acquiring additional credit and some may have to sell a portion of their capital assets to continue farming.

There is some basis for optimism on farm income. Reductions in pork supplies and anticipated improvement in the general economy have already strengthened prices for livestock. Heavy participation in the farmer-owned reserve has sharply reduced free stocks of grain. Thus, if farmers participate in sufficient numbers in the acreage reduction programs, as I believe they will, grain prices could improve significantly for the 1982 crop.

JAPANESE PURCHASE OF UNITED STATES GRAIN FOR THIRD COUNTRIES

Question: There have been several recent articles, one appearing March 2 in the Journal of Commerce, that the Japanese are considering entering the U.S. grain market to purchase U.S. grain for resale to Third World countries on a deferred payment basis. Reports have had the amount of grain involved as high as $400 million. Could you enlighten the Committee as to the validity of these reports and whether you are doing anything to actively encourage these purchases?

Answer: We have discussed this issue with the Japanese and have informed them that, while such purchases would not deal with or substitute for the issue of further liberalization of the Japanese market for agricultural products we are seeking, we would look favorably on such purchases. The grain purchased or financed by Japan must be used for consumption that otherwise would not have taken place, must not displace commercial grain sales, and must not distort existing trade patterns. This concept is still in the preliminary stage since the Japanese Government has not as yet budgeted funds for the purchase of United States grain for third country destination and it is not certain that all relevant ministries within the Japanese Government have agreed that this program should be adopted.

EXPORT POLICY

Question: Recently, Farmland Industries' Board of Directors unanimously adopted a resolution urging the U.S. Government to do everything possible to strengthen national export policies of agricultural goods. Included in that resolution was the suggestion that assurances be given to foreign buyers of agricultural commodities that all sales that are consummated shall be fulfilled. Would this Administration support legislation that would place in statute such an assurance?

Answer: While this Administration is actively reviewing its national export policies and appreciates Farmland Industries' suggestions, we believe that a resolution of this nature would be inappropriate and unnecessary. The Reagan Administration has gone on record numerous times reasserting farm exports will not be used as an instrument of foreign policy except in extreme situations and as part of a broader embargo.

SUBCOMMITTEE RECESS

Senator COCHRAN. The hearing will be adjourned.

[Whereupon, at 4 p.m., Thursday, March 25, the subcommittee was recessed, to reconvene at the call of the Chair.]

AGRICULTURE, RURAL DEVELOPMENT AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1983

FRIDAY, MARCH 26, 1982

U.S. Senate,
Subcommittee of the Committee on Appropriations,
Washington, D. C.

The subcommittee met at 9:30 a.m., in room 1318 Everett McKinley Dirksen Senate Office Building, Hon. Thad Cochran (chairman) presiding.

Present: Senators Cochran, Eagleton, and Stennis.

DEPARTMENT OF AGRICULTURE

Panel on Nutrition Programs

Food and Nutrition Service

STATEMENT OF MARY JARRATT, ASSISTANT SECRETARY FOR FOOD AND CONSUMER SERVICES

ACCOMPANIED BY:

SAM CORNELIUS, ADMINISTRATOR, FOOD AND NUTRITION SERVICE;

BOB LEARD, ASSOCIATE ADMINISTRATOR, FOOD AND NUTRITION SERVICE;

MICHAEL WARGO, ACTING DIRECTOR, OFFICE OF ANALYSIS AND EVALUATIONS, FOOD AND NUTRITION SERVICE;

GEORGE BRALEY, ACTING DEPUTY ADMINISTRATOR, SPECIAL NUTRITION PROGRAMS; AND

WILLIAM BOLING, DIRECTOR, BUDGET DIVISION, FOOD AND NUTRITION SERVICE

Human Nutrition Information Service

STATEMENT OF ESTHER WINTERFELDT, ADMINISTRATOR, HUMAN NUTRITION INFORMATION SERVICE

ACCOMPAINED BY NORMAN STOWELL, BUDGET OFFICER, HUMAN NUTRITION INFORMATION SERVICE

BUDGET REQUEST

Senator Cochran. The subcommittee will come to order.

Today, we are looking at the Federal Government's wide range of food assistance and nutrition programs which come within the jurisdiction of the Department of Agriculture.

We are pleased to welcome representatives from the Food and Nutrition Service and from the Human Nutrition Information Service.

The Food and Nutrition Service administers several food assistance programs designed to provide access to a more nutritious diet for families and individuals with low incomes and to encourage better eating habits among our children.

The basic activities of the Food and Nutrition Service consist of: Child nutrition programs, which include the national school lunch, school breakfast, summer food service, and child care food programs; the special milk program; special supplemental food programs, also known as WIC; the food stamp program; nutrition assistance for Puerto Rico; the food donations program, which includes the elderly feeding program and the food program administration.

Quite notably, over 70 percent of the Department's budget—and nearly the same percentage of our bill—supports these nutrition programs.

The President's budget for fiscal year 1983 includes projected savings of $3.7 billion in the food and nutrition programs. These projected savings would be realized through legislative changes in the child nutrition and food stamp programs, as well as through the transfer of the women, infants, and children [WIC] and the elderly feeding programs to the Department of Health and Human Services—transfers the Congress rejected last year. The proposed savings in the child nutrition and food stamp programs would also be on top of the $3.6 billion in savings achieved by passage of the Omnibus Budget Reconciliation Act of 1981.

While these proposed legislative changes are outside the jurisdiction of this subcommittee, it is, nevertheless, our clear intent to maintain the high level of interest and concern this subcommittee has historically shown in these programs and in the nutritional needs of millions of Americans.

The Human Nutrition Information Service is a new agency, established last October to bring nutrition information functions under one agency.

Its purpose is to contribute to the general health of all Americans by improving understanding of nutrition, developing new knowledge to improve the nutritional quality of diets, and serving as a clearinghouse for technical and educational information of food and human nutrition.

Our witnesses this morning will all be a part of one panel. With us to discuss these two USDA agencies is Assistant Secretary for Food and Consumer Services, Mary Jarratt. Welcome. I certainly hope you have recovered from whatever put you out of commission on Wednesday. We are glad to see you here this morning.

INTRODUCTION OF WITNESSES

Food and Nutrition Service officials accompanying Secretary Jarrett are Sam Cornelius, Administrator; Bob Leard, Associate Administrator; George Braley, Deputy Director, Office of Policy, Planning and Evaluation; Michael Wargo, Acting Director, Office of

Analysis and Evaluations; and William Boling, Director, Budget Division.

Human Nutrition Information Service representatives are: Esther Winterfeldt, Administrator; Norman Stowell, budget officer; and Bob Sherman is back with us again, deputy budget officer of the Department of Agriculture.

We want to welcome all of you to the subcommittee and appreciate very much your being here.

PREPARED STATEMENTS

We have prepared statements of Secretary Jarratt and Ms. Winterfeldt, which together with your biographies, will be made a part of the hearing record at this point.

[The statements follow:]

PREPARED STATEMENT OF MARY C. JARRATT
ASSISTANT SECRETARY, FOOD AND CONSUMER SERVICES
FOOD AND NUTRITION SERVICE

Mr. Chairman and Members of the Subcommittee:

I appreciate having the opportunity to appear before this committee to support the Food and Nutrition Service budget request for Fiscal Year 1983. Accompanying me are Mr. Samuel J. Cornelius, the newly appointed Administrator of the Food and Nutrition Service, Mr. Robert Leard, Associate Administrator of the Food and Nutrition Service, Mr. William Boling, the FNS Budget Officer, and Dr. Michael Wargo, Acting Deputy Director of the Office of Analysis and Evaluation.

The budget that we will discuss today is the result of several months of careful scrutiny of the food assistance programs directed toward reducing the escalating costs of the programs, eliminating overlapping and excessive benefits and concentrating resources on those most in need. In total we are requesting an appropriation of about $13.4 billion, a decrease of $1.9 billion below the revised estimate for 1982 of $15.3 billion.

Restricting Program Growth

For 1983, a series of broad, governmentwide initiatives are planned representing the President's redefinition of Federal/State roles, providing more careful targeting of benefits, allowing greater flexibility to State and local governments and pursuing fraud and abuse more effectively.

The Congress has joined the President in this effort, and we appreciate the work of this committee in making possible many of the initiatives proposed to stem the tide of complex administrative regulations. Together the provisions of the Omnibus Budget Reconciliation Act of 1981 as they apply to the food assistance programs along with further restrictions on the Food Stamp Program that were contained in the Food Stamp and Commodity Distribution Amendments of 1981 will reduce base Fiscal Year 1983 program costs by about $1.477 billion in the Child Nutrition Programs and $1.590 billion in the Food Stamp Program. Food and Nutrition Service has moved aggressively to implement these new provisions.

Among the major child nutrition program tightening measures are:

-- reductions in subsidies for meals served to paying children in the School Lunch and other child nutrition programs;

- limiting the authorized sponsors for the Summer Food Program to include only governmental sponsors operating sites in areas where 50 percent or more of the children qualify for free or reduced price meals;
- eliminating high-tuition schools; and
- limiting the Special Milk Program to schools that do not participate in another federally subsidized meal program.

We have also moved ahead to limit income eligibility to 130 percent of poverty for free lunches and 185 percent for reduced priced lunches. This means that to qualify for a free lunch the maximum allowed income for a family of four is currently $10,990 annually instead of $11,520, the limit under previous law, and for reduced price lunches it is $15,630 rather than $17,440, the maximum limit under previous law. Requirements for verification of income and inclusion of Social Security numbers on all free and reduced price meal applications are also in place.

Key Food Stamp Measures

The Food Stamp and Commodity Distribution Amendments of 1981 along with the food stamp provisions of the Omnibus Budget Reconciliation Act of 1981 were designed to slow the growth of Food Stamp Program costs, direct benefits to the most needy and strengthen anti-fraud activities. The key measures include:

- delaying the update of the Thrifty Food Plan allotment until October 1982 (last adjusted in January 1981);
- setting the gross income eligibility standard, except for elderly and disabled households, at 130 percent of poverty;
- freezing both the standard deduction and the dependent care/excess shelter deduction at the July 1981 level until July 1983;
- lowering the earned income deduction for working households from 20 percent to 18 percent;
- prohibiting strikers from joining the program unless they were eligible before the strike;
- pro-rating the first month's benefits;
- strengthening the work requirement rules to apply the disqualification penalty for voluntarily quitting a job to participants as well as applicants;
- expanding the disqualification penalties for fraud and misrepresentation.

The net effect of the new provisions is to reduce Food Stamp Program eligibility by 875,000. We are also moving ahead to permit implementation of monthly reporting and retrospective accounting before the October 1, 1983 deadline set by law in order to assure that food stamp benefits more nearly approximate the current economic circumstances of the household.

The regulations governing the new nutrition assistance grant for Puerto Rico have been issued and we anticipate an acceptable plan from Puerto Rico before the April 1 required date.

Reduced Participation

Mr. Chairman, we are beginning to see the effects of these efforts. For the Food Stamp Program, December 1981 data indicate that the participation in the program is holding steady at about 21.9 million participants despite the rise in unemployment. This is compared to December 1980 when participation was 22.2 million.

Average participation in the School Lunch Program for this school year is down to 23.2 million, a 3.5 million reduction below last year, though past research suggests that some of this reduction will be recovered later in the year.

These data are preliminary because it is still early in the school year. The revised application procedures were issued late because new procedures were enacted into law August 13, 1981 and, thus the data do not yet reflect the full impact of the lowered income eligibility standards.

Child Nutrition Programs

We are requesting a 1983 appropriation of $2.826 billion. This is a net decrease of $21 million below the appropriation for 1982. A $27 million increase is requested for basic payments to all lunches served due primarily to a projected rise of approximately 6.7 percent in the rates established by law. An increase of $148.6 million is also requested for mandated rates of payment for special assistance for free and reduced price lunches. In both cases, the increases are net of decreases reflecting the elimination of the Department of Defense overseas schools now eligible for the program and the institution of block grants for nutrition assistance to Guam, Virgin Islands, American Samoa and the Commonwealth of the Northern Marianas.

No funds are requested in 1983 for the School Breakfast Program or for the Child Care Food Program. These programs are proposed for consolidation into a General Nutrition Assistance grant in 1983. This grant would total $488 million or about 80 percent of the 1982 level. Language accomplishing this purpose has been proposed in the appropriation's request and will be submitted to the Congress in the Department's Fiscal Year 1983 legislative program.

An appropriation level of $35.4 million is requested for State Administrative Expenses. This decrease reflects the elimination of administrative requirements for the current School Breakfast and Child Care Food Programs.

No funds are requested for the Summer Program in 1983. A $62 million program (including the value of commodities) will be operated in the Summer of 1982.

An increase of $3.3 million is requested for commodity procurement for the School Lunch Program, primarily to fund the mandatory rates of commodity distribution which are expected to rise 6.5 percent in Fiscal Year 1983.

Proposed Language Changes

In addition, Mr. Chairman, you have noted that we have requested a number of critical changes to the appropriation language for Fiscal Year 1983. Our proposed language would delete the authorization for funding for the Nutrition Education and Summer Food Service Programs. It would also provide for the consolidation of the grants for the Child Care and Breakfast Programs into a General Nutrition Assistance Grant. We believe that there are efficiencies to be made from this process and that such a proposal could save $246.4 million in Fiscal Year 1983.

The proposed language would continue and broaden certain language changes made in previous years that were designed to enhance the ability of the agency to manage the Child Nutrition Programs within available funds. These include the restriction of payment to claims filed before January 1 following the fiscal year in which the meals are served, the authority to carry forward reimbursement of claims for the month of July, August and September into the following fiscal year and the authority for a two year availability of the appropriations.

The proposed language also would restore the authority of the appropriations committee to establish fixed appropriation levels for these programs. It clarifies the fact that obligations cannot be incurred by the Federal government beyond those established by the Appropriations Act. Given the fact that the school lunch programs are no longer expanding and the need for virtually open-ended grants has clearly diminished, it seems an ideal time to address this issue. In addition, the fiscal discipline envisioned in a provision such as this would provide an incentive to States to effectively implement the requirements for improved accountability in the Child Nutrition Programs enacted by Congress.

Special Milk Program

No funds are requested for the Special Milk Program. This would save $28.6 million in Fiscal Year 1983. Currently, the program is restricted to schools not participating in other child nutrition programs, in accordance with the provisions of the Omnibus Budget Reconciliation Act of 1981.

Special Supplemental Food Programs

No funds are requested for either the WIC or Commodity Supplemental Food Programs. It is proposed that these programs be terminated in favor of a grant for services to women, infants and children which would also include provision for maternal and child health services administered by the Department of Health and Human Services (DHHS). The amount requested for this grant in Fiscal Year 1983 is $1 billion and is included in the DHHS budget.

The new consolidated grant would allow the States the flexibility to determine the mixture of health care and supplemental food that would best serve the needs of their populations. It would enable States to plan and coordinate their own maternal and child health service programs, establish their own priorities and exercise effective control over the resources provided to local authorities. Overlapping funding could be eliminated and Federal administrative expenses reduced.

Food Stamp Program

For the Food Stamp Program, the 1983 budget proposes an appropriation of $9.542 billion.

At present the Food Stamp Act authorizes the program through September 30, 1982. In addition to the extension of the Food Stamp Program through Fiscal Year 1983, legislation is being proposed which will make a number of reductions in the current cost of the program.

First, we propose the following changes which will affect eligibility and benefit levels and reduce costs by $2.1 billion in 1983:

- -- Increasing the benefit reduction rate by 5 percent, from 30 to 35 percent;
- -- Eliminating the $10 minimum benefit;
- -- Treating income from whatever source equally, through the elimination of the 18 percent earned income exclusion as well as the exemption of energy payments;
- -- Revising the rounding rules.

The effect of these new proposals interacting with the provisions of the 1981 Reconciliation Act and the new proposals for Aid to Families with Dependent Children (AFDC) and Supplemental Security Income (SSI) will increase food stamp costs by $530 million in 1983.

Second, the 1983 budget assumes an all-out effort to eliminate reported errors above the three percent level in 1983. The budget provides no funds to support error rates above that level. Six hundred and fifteen million dollars can be saved through this action.

In addition, we are proposing to consolidate funding for the food stamp State administrative expenses (except for State anti-fraud activities) into a Combined Welfare Administration grant which will also cover Medicaid and AFDC costs. We are also planning to require the States to bear the costs of work registration and job search activities, since these are activities of State employees. Together these proposals will save $123.6 million in Fiscal Year 1983.

We have also submitted a supplemental appropriation request of approximately $1 billion for Fiscal Year 1982 to increase the available funds for the program to $11.3 billion.

Nutrition Assistance for Puerto Rico

Authorized by the Omnibus Budget Reconciliation Act of 1981, a special block grant for nutrition assistance for Puerto Rico will be implemented beginning July 1, 1982. The new grant, which is intended to supplant the Food Stamp Program in Puerto Rico, will give the Commonwealth broad flexibility to establish a food assistance program that is specifically tailored to the needs of its low-income households and at the same time enable the Commonwealth to become more self-reliant and to stimulate local agriculture.

$206.5 million was appropriated in Fiscal Year 1982 to fund the new program during the last quarter of the year. The grant level for Fiscal Year 1983, as set by the Reconciliation Act, is $825 million.

Nutrition Assistance for Territories

Legislation will be proposed to provide nutrition assistance grants to Guam, the Commonwealth of the Northern Mariana Islands, American Samoa and the Virgin Islands. The grants, which are intended to supplant the Federal food programs currently operated in the territories, will enable each area to set its own priorities to address local problems, exercise greater control over the design and administration of their food assistance programs and stimulate local agriculture and other food production activities.

In Fiscal Year 1982, the total cost of the food assistance programs in the territories is estimated at $51.5 million. The new grants would provide a total of $43.7 million in Fiscal Year 1983.

Food Donations Programs

In Fiscal Year 1982, $93.2 million was appropriated for the USDA Elderly Feeding Program. In Fiscal Year 1983, we are proposing to transfer this program to the Department of Health and Human Services to be consolidated with the other elderly nutrition programs. In the past, about 87 percent of the USDA appropriation for this program has been used for cash reimbursements, not commodity donations. Thus, the Elderly Feeding Program should be viewed as primarily a cash assistance program. The absence of a large commodity contribution suggests that there is no longer a pressing reason to keep a separate Elderly Feeding Program in USDA.

No changes are proposed for the Food Distribution Program on Indian Reservations and in the Trust Territory. (The Commonwealth of the Northern Mariana Islands is proposed for inclusion in the block grant for Nutrition Assistance for Territories.) The budget includes $65 million to continue the program in Fiscal Year 1983 as structured by current law. This is an increase of $6.6 million over the Fiscal Year 1982 budget including distributing agency costs associated with operating the program on Indian reservations.

For the past several years, payments to distributing agencies were funded through two appropriation accounts. Indian program expenses were included among the funds appropriated for State administration of the Food Stamp Program and the Food Donations Program appropriation included funds for operating the program in the Pacific Islands. To eliminate the dual source of funding, the Fiscal Year 1983 budget proposes to fund all distributing agency costs for the program from a single source within the Food Donations Program.

Participation on Indian reservations will increase from an estimated monthly average of 103,500 in Fiscal Year 1982 to 110,000 in Fiscal Year 1983, while average participation in the Pacific Islands is expected to decline from about 11,500 in Fiscal Year 1982 to 8,500 in Fiscal Year 1983 when only the Trust Territory will be participating in the program.

Food Program Administration

An appropriation of $85.5 million will be needed for Food Program Administration in Fiscal Year 1983 to fund 2,300 agency staff years. In total, this is a reduction of about $1 million and 215 staff years below the estimated Fiscal Year 1982 level of 2,515. This reduction is on top of a reduction of about 221 staff years that will be achieved this year.

In the Child Nutrition Programs there will be a net reduction of 15 staff years in Fiscal Year 1983 due to the termination of the Summer Food Service Program partially offset by a reallocation of personnel resources to provide greater technical assistance to the States to:

-- aid in the design and implementation of programs that States may wish to institute with the funds provided by the new grants for General Nutrition Assistance,

-- improve commodity distribution programs that provide support for the School Lunch Program,

-- monitor and assist State agencies in the development of techniques for the effective implementation of income verification at the local level as mandated by the Omnibus Budget Reconciliation Act of 1981.

Staff years will be reduced by another 200 as a result of the elimination of the Special Milk Program and the transfer of the Special Supplemental Food Programs and the Elderly Feeding Program to block grants administered by the Department of Health and Human Services.

No further staff year reduction is planned for the Food Stamp Program in Fiscal Year 1983. Available resources will be targeted on lowering error rates and controlling fraud and abuse in the program. Among the activities that will be undertaken are the design and installation of error-rate reduction systems and improved issuance systems to assure that States reduce their errors below the 3 percent target set for Fiscal Year 1983.

Summary

In summary, Mr. Chairman, we have concluded that although the full impact of the savings and program changes enacted by Congress in 1981 have not been fully realized, we have sufficient information to conclude that the tide of expansion has been stemmed.

Recent data on the Food Stamp Program have indicated that, despite recent rises in unemployment, the overall participation in the program has remained stable indicating that the less needy have been removed from the program.

Similarly, in the Child Nutrition Programs, increases in Federal costs have been held below the rate of inflation.

Out initial discussions with Puerto Rico indicate very positive approaches for effective implementation of the Nutrition Assistance Grant. We anticipate an approvable plan before the April 1 deadline and are planning for a smooth transition from the Food Stamp Program to the new program designed by Puerto Rico on July 1.

These are important signs, Mr. Chairman, that some right steps have been taken, and it is in this positive context that the 1983 budget proposals should be considered.

BIOGRAPHICAL SKETCHES

MARY C. JARRATT

Mary C. Jarratt was sworn in as assistant secretary of agriculture for food and consumer services for the U.S. Department of Agriculture May 20, 1981. Jarratt was nominated for the position March 18 and confirmed by the U.S. Senate May 19.

Since February 1975, Jarratt had been a professional staff member to the full Committee on Agriculture, U.S. House of Representatives. She was assigned to the Subcommittee on Domestic Marketing, Consumer Relations and Nutrition.

Jarratt was the first woman to be named to professional status in the 130-year history of the House Agriculture Committee. In her tenure with the committee, she developed an expertise in consumer nutrition issues and the food stamp program. Jarratt also served as a staff member of the special House Committee on Welfare Reform during the 95th Congress.

In the eight years prior to joining the House Agriculture Committee staff, Jarratt was executive secretary to Congressman Richard H. Poff (R-Va.) and then to William R. Haley, a member of the National Transportation Safety Board. From 1966 to 1967 she was an assistant to Raymond G. Bauer at the Harvard Graduate School of Business Administration, Boston, Mass.

Jarratt, a native Virginian, received a bachelor of arts degree in history from Mary Baldwin College, Staunton, Va., and a degree of business certification from the Katharine Gibbs School, Boston, Mass.

She had been active in 4-H during her earlier school years and was named Virginia's State 4-H Alumni Achievement winner in 1978 and a National 4-H Alumni Achievement winner in 1980.

Samuel J. Cornelius

Samuel J. Cornelius has recently been selected as administrator of the U.S. Department of Agriculture's Food and Nutrition Service. He assumed his duties March 8. Prior to coming to FNS, Mr. Cornelius had been at the White House in the Office of Presidential Personnel since last November. In April 1981 he was named deputy director of the Community Services Administration.

Mr. Cornelius also served in President Ford's administration as deputy director, Office of Minority Business Enterprise, U.S. Department of Commerce. He resigned in March 1977 to enter private business. In November 1979, he took leave from his privately-owned business, Cornelius-Wiggins Internationale, Inc., to develop the Economic Development Assistance Center for Opportunities Industrialization Centers of America.

Born in Kansas City, Missouri, April 14, 1928, Mr. Cornelius is a graduate of Anderson College, Anderson, Indiana. He has been vice president of the board of directors of the National Association for the Advancement of Colored People, and a member of the steering committee of Opportunities Industrialization Centers, the Metropolitan Board of Directors of Kansas City Young Men's Christian Association, the United Fund and United Black Fund.

Robert E. Leard

Robert E. Leard is the Acting Associate Administrator of the Food and Nutrition Service, USDA. A native of Wyoming, he recently retired in the grade of Colonel after 25 years active duty in the U.S. Army.

During Mr. Leard's military service he was assigned to a variety of positions, including Assistant to the military representative on the Salt Talks with the Russians, and Commander of a Division Artillery at Ft. Hood, Texas. He also has held positions at all levels within the Department of Defense to include the Office of the Secretary of Defense, Joint Chiefs of Staff, and Department of the Army. Mr. Leard has extensive experience in Financial Management and Administration. He is a 1957 graduate of the United States Military Academy, where he received a B.S. degree. He received Masters Degrees in Mechanical and Aeronautical Engineering from the University of Southern California.

Mr. Leard lives in Alexandria, Virginia with his wife and two children.

Michael J. Wargo

Dr. Michael J. Wargo was recently appointed Acting Deputy Director of the newly formed Office of Analysis and Evaluation within the Food and Nutrition Service, U.S. Department of Agriculture. Prior to his appointment he directed for three years FNS's Program Evaluation Staff. In his current capacity he is responsible for the analysis and assessment of all domestic food and nutrition programs. Prior to transferring to FNS, he directed the evaluation of domestic (VISTA) and international (Peace Corps) volunteer programs at the ACTION agency. Dr. Wargo also directed evaluations at the U.S. Office of Education for four years, at the American Institutes for Research for two years, and at Dunlap and Associates, Inc. for four years. Since receiving a Ph.D. degree in applied experimental psychology from Tufts University in 1966, he has devoted his career to the evaluation of domestic and international education, training, health, food, nutrition and volunteer programs.

Dr. Wargo lives in Arlington, Virginia with his wife and son.

WILLIAM G. BOLING

William G. Boling was named Budget Officer of the Food and Nutrition Service in December 1981. He has worked with Food and Nutrition Service's programs for 20 years. His most recent assignment was Regional Administrator of the Mid-Atlantic Region.

PREPARED STATEMENT OF ESTHER WINTERFELDT, ADMINISTRATOR

HUMAN NUTRITION INFORMATION SERVICE

Mr. Chariman and Members of the Committee:

I am Esther Winterfeldt, Administrator of the Human Nutrition Information Service (HNIS). I am pleased to be here today to discuss the HNIS budget request for Fiscal Year 1983.

Nutrition Information--Improving USDA's Efficiency

The Human Nutrition Information Service is a new agency, established on October 1, 1981. The Department reorganization establishing HNIS followed principles of functional organization, and brought nutrition information functions into a single agency.

The mission of HNIS is to contribute to the general health of the American people by:

- improving professional and public understanding of the nutritional adequacy of diets and food supplies;
- developing new knowledge needed to improve the nutritional quality of diets; and
- collecting and disseminating technical and educational materials on food and human nutrition.

These activities are performed by three operating units transferred from the Science and Education Administration. The operating units are known as the Consumer Nutrition Center, the Human Nutrition Information and Dietary Guidance Staff, and the Food and Nutrition Information Center.

The Consumer Nutrition Center -

(1) conducts the Nationwide Food Consumption Survey (USDA's major contribution to the National Nutrition Monitoring System);
(2) maintains the Nutrient Data Bank;
(3) develops USDA's Family Food Plans, one of which (the Thrifty

Food Plan) is used as the basis for the Food Stamp allotment;

(4) conducts special surveys of food consumption to support other USDA programs (e.g. low-income households, the elderly, infants);

(5) conducts research in support of its surveys and Nutrient Data Bank; and

(6) publishes its findings in technical reports and publications for the general public.

The Nutrition Information and Dietary Guidance Staff -

(1) conducts research on eating patterns, ways to improve nutrition information, ways to improve delivery of nutrition education, and techniques to evaluate the effectiveness of nutrition education;

(2) provides professional education and technical assistance to other branches of USDA; and

(3) conducts technical clearance of nutrition-related manuscripts.

The Food and Nutrition Information Center -

(1) maintains a library collection of technical and educational materials on food and nutrition and disseminates them to professionals throughout the U.S.; and

(2) maintains the food and human nutrition portion of the Agricultural On Line Access (AGRICOLA) bibliographic data base.

Nutrition Information for Professionals and the Public

We are committed through the establishment of the Human Nutrition Information Service to provide the public and professionals with the information they need to make food choices to maintain good health. This will be accomplished through an integrated intramural and extramural research program, close cooperation with the Department of Health and Human Services to implement the National Nutrition Monitoring System, expanded initiatives with the private sector, and innovative use of new technologies.

The budget request for fiscal year 1983 will support USDA's contribution to the National Nutrition Monitoring System, an active program in nutrition education research, additions to our library collection of human nutrition educational materials, and our contribution to the AGRICOLA bibliographic data base.

The National Nutrition Monitoring System

Our major contributions to the National Nutrition Monitoring System are the Nationwide Food Consumption Survey and the Nutrient Data Bank. HNIS is actively working with the Department of Health and Human Services to develop by the end of fiscal year 1982 a compatible sampling frame so that the results of our surveys can be analyzed jointly and compared. This will enable us to provide, beginning in fiscal year 1987, important data on the nutritional health and food consumption patterns of a national sample of the American population.

Field tests of new methods to be used in the 1985 Nationwide Food Consumption Survey are needed. However, no funds will be dedicated to field tests until analysis is completed on the effects of (1) alternative survey intervals of one, two and five years, (2) alternative levels of detail on the foods consumed, and (3) alternative survey methods including possible integration with the Consumer Expenditure Survey sponsored by the Bureau of Labor Statistics. Analyses are currently being prepared and some delay is expected in the start of field tests originally scheduled for fiscal year 1983.

Nutrition Education Research

USDA is the lead agency in nutrition education. Much of this effort is targeted at special groups, such as the poor, the elderly, and mothers of young children. In view of the fact that the reach and effectiveness of these efforts remain a matter of controversy, HNIS will conduct research to improve the cost-efficiency, effectiveness, and usability of information designed for the special needs of vulnerable groups, and the most effective strategies for reaching them.

Questions to be addressed by targeted research of this kind include:

- What types of nutrition information and what delivery strategies are effective and efficient in reaching special groups?

- What approaches are currently in use? Do they meet people's needs effectively?
- What kind of benefits can be expected from the use of nutrition information? How do they compare with costs?
- What efficiencies and cost-savings will result from cooperation and coordination with the private and independent sectors?

Nutrition Information

We will continue in fiscal year 1983 to add to our library collection of food and human nutrition educational materials and to the AGRICOLA bibliographic data base. The subfile to the AGRICOLA data base now exceeds 24,000 citations and is growing at the rate of 5,000 citations per year.

Initiatives with the Private Sector and New Technologies

New ways are being explored to fulfill the mission of providing professionals and the public with research-based nutrition information.

Approaches include cooperative ventures with professional societies, foundations, and private enterprise, and innovative use of new technologies. For example, in fiscal year 1983 the American Red Cross will begin a new course in nutrition for the general public that will be jointly developed with USDA. Both HNIS and the Extension Service are participating in this project.

In fiscal year 1983, USDA and DHHS will sponsor a video teleconference on infant nutrition. The teleconference will make use of satellite communications technology. We will be able to reach Extension Specialists, WIC professionals, public health nurses and nutritionists and other health professionals in all 50 states in a highly cost effective manner.

The teleconference will review recent research findings on the nutrition needs of pregnant women and young infants.

Summary

The Human Nutrition Information Service plans and conducts surveys of representative samples of the U.S. population and selected vulnerable groups to define food use and consumption. The staff also conducts nutrition education research and provides technical assistance and coordination in the development of dietary guidance materials for USDA. In addition, the staff assembles and collects food and nutrition education materials, including the results of nutrition research, training methods, and related materials; maintains a library of these materials and provides for the dissemination of such information.

The fiscal year 1983 budget request of $8.289 million will support these activities. Close cooperation with other USDA agencies and the Department of Health and Human Services will improve the efficiency of the National Nutrition Monitoring System. Expanded initiatives with the private sector and innovative use of new technologies will enable us to reach more people with reliable, research-based nutrition information.

Mr. Chairman, I will be happy to answer any questions you or other Committee Members may have.

BIOGRAPHICAL SKETCHES

ESTHER WINTERFELDT

Dr. Winterfeldt was born and raised in Stigler, a small town in rural southeastern Oklahoma. She has B.S. and M.S. degrees in nutrition from Oklahoma State University and; in 1970, received her Ph.D. from Ohio State University. She was appointed Administrator of USDA's Human Nutrition Information Service in January 1982.

Dr. Winterfeldt has extensive nutrition-related experience in research, education and administration. She has conducted or directed research on the roles of vitamins and metals in human nutrition. She directed a study on the nutrient quality and acceptability of mechanically deboned meat and is currently engaged in research on the effects of dietary fiber. She has had a large number of articles, on these and other nutritional matters, published in leading professional journals.

Dr. Winterfeldt has held faculty positions both at Ohio State University and at Oklahoma State University where she has been Head of the Department of Food, Nutrition and Institution Administration for over eleven years. She has participated in numerous nutrition-related conferences and seminars. Among these would be the 1980 White House Conference on Families, and conferences for Expanded Food and Nutrition Education Program (EFNEP) aides. She has testified on several occasions before Congressional committees.

She has directed hospital dietetic programs.

Dr. Winterfeldt has been active in public and professional service. She is a past president of the American Dietetic Association and has served it in a variety of other ways. Among her other professional affiliations are the American Home Economics Association, the Society of Nutrition Education and the American Association for the Advancement of Science.

Dr. Winterfeldt presently serves as an alternate member of the Department's Wheat Advisory Council and was a United States delegate, in 1980, to the 9th International Congress of Dietetics in Sao Paulo, Brazil.

C. NORMAN STOWELL

C. Norman Stowell, a New York native with sixteen years experience in Federal budgeting was appointed Budget Officer for Human Nutrition Information Service in July 1981. He is a Supervisory Budget Analyst with the Food and Nutriton Service, responsible for the Policies and Procedures Branch in the Budget Division.

He started his Federal career as an Investigator with the Civil Service Commission and worked on the budget staff of that agency for ten years prior to coming to the Department of Agriculture.

Stowell was born and reared in Olean, New York, served in the U.S. Navy from 1952 to 1956, and received his Bachelor of Business Administration degree from St. Bonaventure University in 1960.

He is married and has five children and lives in Springfield, Virginia.

BUDGET OVERVIEW

Senator COCHRAN. Madam Secretary, you may proceed in any way that you choose, and then we will hear from Mr. Cornelius and Ms. Winterfeldt.

Miss JARRATT. Thank you, Senator Cochran.

It is a pleasure to be here. I apologize for the postponement we had to ask you to give us earlier in the week.

I will submit my statement for the record and summarize it for you so we will have time for questions. I wanted to emphasize that in the development of this legislative package the administration is fully cognizant of the impact that these programs have had and that we think there has been a very positive impact.

We did feel that, perhaps, we could achieve some savings through addressing duplication and overlaps across program lines by trying to address better targeting that might be achieved with greater involvement of the States in the administration of the programs. We certainly were guided by our objectives of focusing benefits to those eligible participants with the lowest incomes.

The administration is requesting an appropriation of $13.4 billion. That represents a decrease of $1.9 billion below the revised estimate for 1982 of $15.3 billion.

1982 COST REDUCTIONS

Together, the provisions of the Reconciliation Act of 1981, as they apply to the food assistance programs along with further restrictions in the food stamp program that were adopted in the farm bill legislation in December of last year, will reduce the basic fiscal year 1982 program costs by about $1.477 billion in the child nutrition programs and $1.590 billion in the food stamp program.

The child nutrition program restrictions that were adopted are summarized on page 2 of the testimony. They include an income eligibility cutoff of 185 percent of poverty for the reduced price category and 130 percent of poverty for children who receive free meals.

The Congress adopted the change in eligibility criteria for the reduced price category, and that cutoff is now $15,630 per year rather than $17,440.

As a result of the legislation last year, we are also requiring the verification of income and inclusion of social security numbers in all free and reduced price meal applications.

FOOD STAMP PROVISIONS

The food stamp provisions are summarized on page 3 of the testimony.

Senator EAGLETON. What page?

Miss JARRATT. Page 3. Those were the provisions, Senator, that were adopted last year. The net effect of the provisions is to reduce the food stamp program eligibility by 875,000 persons. I have seen that figure misinterpreted in the press. The projection that we gave and what we believe is really happening is a reduction of about 875,000 persons for the program.

We are also moving ahead to permit implementation of monthly reporting and retrospective accounting. That provision is to be effective in October, 1983. That is the deadline for the implementation. We hope to have those regulations out shortly.

The regulations governing the new nutrition assistance grant for Puerto Rico have been issued, and our regional office has been in consultation with the officials in Puerto Rico. As you know, the deadline for the submission of the plan is April 1—just about upon us—and we expect to receive a plan for the implementation by that time.

PROGRAM PARTICIPATION

For the food stamp program, December, 1981 data indicate that the participation in the program is holding steady at about 21.9 million participants despite the rise in unemployment. This is compared to a 22.2 million person caseload in December, 1980. Average participation in the school lunch program for this school year is down to 23.2 million, a 3.5 million reduction below last year, though past research suggests that some of this reduction may be recovered later in the year.

We estimate about 1,500 schools have dropped out of the school lunch program because of consolidations, closings, or overall drop in enrollment. About 500 of those are in the public school category, and about 1,000 are in the private school category.

These data are indicated in reports received from the States, but it is still a little early in the school year. Revised application procedures for free and reduced price meals were issued late, because the new procedures were enacted only in August, 1981, and thus the data do not yet reflect the lower eligibility standards.

CHILD NUTRITION PROGRAMS

We are requesting a 1983 appropriation of $2.826 billion for the child nutrition programs. This is a net decrease of $21 million below the appropriation for 1982. However, a $27 million increase is requested for basic payments to all lunches served due primarily to a projected rise of approximately 6.7 percent in the CPI adjustment in the reimbursement rates established by law. An increase of $148.6 million is also requested for mandated rates of payment for special assistance for free and reduced price meals.

In both cases, increases are net of decreases reflecting the elimination of the Department of Defense overseas schools now eligible for the program and the institution of block grants for nutrition assistance for the territories.

No funds are requested directly for the breakfast program or for the child care food program, because the administration is advocating the consolidation of those two programs into a general nutrition assistance grant in 1983. The funding level for the new grant will be $488 million or about 80 percent of the 1982 level. We are requesting an appropriation of $35.4 million for State administrative expenses. This reflects somewhat of a decrease because of the consolidation of the school breakfast and child care food programs.

No funds are requested for the summer program in 1983. A $62 million program will be operated in the summer of 1982. An increase of $3.3 million is requested for commodity procurement for the school lunch program, primarily to fund the mandatory rates of commodity distribution which are expected to rise by about 6.5 percent.

APPROPRIATION LANGUAGE

We have requested a number of critical changes to the proposed language for fiscal year 1983. Our proposed language would delete the authorization for funding for the nutrition education and summer food service programs. It would also provide for the consolidation of the grants for the child care and breakfast programs as just discussed. We believe there are efficiencies to be made from this process and that such a proposal could save $246 million in fiscal year 1983.

We would also broaden certain language changes made in previous years that were designed to enhance the ability of the agency to manage the child nutrition programs. They include the restriction of payment to claims filed before January 1, following the fiscal year in which the meals' expenses were incurred; the authority to carry forward reimbursement of claims for the months of July, August, and September into the following fiscal year; and the authority for a 2 year availability of appropriations.

We are also requesting language to restore the authority of the Appropriations Committee to establish fixed appropriation levels for these programs. It clarifies the fact that obligations cannot be incurred by the Federal Government beyond those established by the Appropriations Act. We have not requested a reduction in spending, and we do not predict vast changes in the participation in the school lunch program.

No funds are requested for the special milk program. That would save us $28.6 million. The reason for doing this is that 94 to 95 percent of the children who avail themselves of the special milk program are in the nonneedy category.

No funds are requested either for the WIC or commodity supplemental food programs. Instead, we advocate a block grant for child health programs which would include provisions for supplemental food programs. The new grant program, called services for women, infants, and children, would be administered by the Department of Health and Human Services. Again, recognizing the effectiveness of the WIC program, we do feel that it is wise to continue to operate the program, but not in conjunction with programs that are dissimilar in intent.

FOOD STAMP BUDGET ESTIMATES

For the food stamp program, we request an appropriation of $9.542 billion.

At present the Food Stamp Act authorizes the program through September, 1982. We will request an extension of the program through 1983 and will propose other legislation that will make a number of reductions in the current cost of the program.

Those reductions, which are listed on page 8, would achieve a total saving of $2.1 billion in 1983. The major cost-saving provision in the package is the increase in the benefit reduction rate from 30 to 35 percent. We are also advocating eliminating the $10 minimum benefit provision. Several other proposals are listed on page 8.

We expect the effects of the new proposals, interacting with the provisions of the 1981 Reconciliation Act and the new proposals that have been passed and are being implemented in aid to families with dependent children and supplemental security income, will cause an increase in food stamp costs of $530 million in 1983. That is accounted for in our submission.

The 1983 budget assumes an all-out effort to eliminate reported errors above the 3-percent level in 1982. It does not provide funds to support error rates above that level. $615 million can be saved through this action.

We are proposing a consolidated grant for food stamp State administrative expenses that will be called the combined welfare administration grant. The administrative expenses for medicaid and AFDC will be in this package also. We are asking the States to bear the cost of work registration and job search activities since these functions are performed by State employees. Together, this package will save $123.6 million in fiscal year 1983.

We have also submitted, as you know, a supplemental appropriation request of approximately $1 billion for fiscal year 1982 to increase the available funds for the program from $10.3 to $11.3 billion.

PUERTO RICO GRANT

I indicated earlier that the nutrition assistance grant for Puerto Rico is on target, and we do expect that the Commonwealth will have a proposal for implementation on July 1 of this year.

We have appropriated $206 million for the last quarter of this fiscal year for that special nutrition program. We are requesting an appropriation of $825 million for the Puerto Rico grant in 1983.

NUTRITION ASSISTANCE FOR THE TERRITORIES

We are advocating the consolidation of the nutrition assistance grants in the outlying territories. They are intended to supplant the Federal food programs currently operated in those areas. There again, we believe that those localities are better qualified to design feeding programs that suit their needs rather than to have the same kind of structure that we have in the continental United States.

In 1982, the total cost of food assistance in the territories is estimated at about $51.5 million. The proposed grant would provide $43.7 million in fiscal year 1983.

FOOD DONATIONS PROGRAM

In the area of food donations, we are proposing to transfer the elderly feeding program to the Department of Health and Human Services for consolidation with other elderly nutrition programs. The bulk of our funding is given in cash, and we feel that since the commodities are not often requested, the consolidation is warranted.

No changes are proposed for the food distribution program on Indian reservations or in the Trust Territories. The budget includes $65 million to continue the program in fiscal year 1983 as structured by current law. That is an increase of $6.6 million over the fiscal year 1982 estimate.

Participation on Indian reservations, we believe, will increase from an estimated monthly average of 103,500 in 1982 to about 110,000 in fiscal year 1983, while the participation in the Pacific Islands is expected to decline slightly.

FOOD PROGRAM ADMINISTRATION

Food program administration will require $85.5 million in fiscal year 1983 to fund 2,300 agency staff years. The child nutrition programs will have a net reduction of 15 staff years in fiscal year 1983 due to the termination of the summer program, but this is partially offset by reallocation of personnel resources to provide greater technical assistance.

No further staff year reduction is advocated other than what is outlined on the bottom of page 11 and page 12 in the testimony. There will be no reduction in staff years in the food stamp program.

In summary, Mr. Chairman, that is a quick overview of the proposals for the Food and Nutrition Service budget request. I will be happy to proceed with the HNIS agency or take questions.

HUMAN NUTRITION INFORMATION SERVICE

Senator COCHRAN. Why don't we go ahead and complete our statements? I know we have a statement from Ms. Winterfeldt concerning the budget of the Human Nutrition Information Service, and we invite you to make any comments or summary statement before we get into the questions.

Ms. **Winterfeldt**. Thank you, Mr. Chairman.

Our summary statement outlined the mission of the Human Nutrition Information Service and the fact that we have three operating units that were transferred from the Science and Education Administration in the formation of this new agency. Those three are the Consumer Nutrition Center, the Human Nutrition Information Dietary Guidance Staff, and the Food and Nutrition Information Center. Some of the activities that we provide through the agency are nutrition information for professionals and for the public, and the National Nutrition Monitoring System.

We, of course, are working with HHS in the development of that system. The nationwide Food Consumption Survey and the Nutrient Data Bank are two of the very large activities that come from our agency. We are a lead agency in nutrition education, and much of that effort is focused so that it does reach special groups—the poor, elderly, and mothers of young children. We continue to conduct research that is aimed towards the providing of nutrition education that goes to the groups.

We provide a library collection of materials and information in human nutrition. We have a large number of citations that are assembled in that collection, and we make these available for our audiences.

We have proceeded with exploring ways of providing further programs with the private sector, cooperative ventures that we hope to establish working with the private sector groups, and also with professional societies.

Our fiscal year budget request of $8.289 million, we feel, will support this activity. We expect to continue close cooperation with the various agencies and with HHS, and we hope to expand our initiatives with some of the private sector.

Thank you.

Senator **Cochran**. Thank you very much, Ms. Winterfeldt.

1982 BUDGET REQUESTS

Last year, I remember being disturbed with the fact that the budget request for the Food and Nutrition Service was grossly underestimated. We had a very difficult time getting the cooperation of the Office of Management and Budget and less difficulty with the Food and Nutrition Service in supporting adequate appropriations that would fully fund the programs for this fiscal year.

I hope we don't see a repeat of that this year where we go into a markup session of the full Committee on Appropriations with no commitment from the administration to support an appropriation that would fully fund the food stamp program, particularly, and the WIC program in the face of clear evidence that the costs were going to greatly exceed the request for funding that had been submitted by the administration.

In that connection, I wonder whether you have looked at the needs of the programs in a realistic way or, are you submitting to the Congress an understated amount that you know is inadequate for funding these programs and then hoping that Congress will somehow figure out a way to keep the program from having to be shut down in midyear or 9 months into the fiscal year in the absence of even a request for a supplemental.

FOOD STAMP SUPPLEMENTAL

Miss Jarratt. No, sir. That is not our intent. We have already submitted the $1 billion supplemental request for this year, because we know the $10.3 billion figure will not support the food stamp program. We do believe the $11.3 billion expenditure will provide full benefits for legitimately entitled food stamp households if the three provisions of our legislative package are implemented on July 1. Those provisions account for about $300 million in savings.

The 1983 budget request takes into account the program changes that we have outlined to you, and it requires a separate appropriation of $825 million for the Puerto Rico program. We hope to have the provision for a 2½-percent cushion, as we did last year, which is needed. We intend to monitor the program, and if we see the participation or any other factor affects our expenditure level, we will be quick to alert you. But I do not believe that there is anything assumed in the preparation of the estimate that we haven't given you in our testimony.

Senator Cochran. I appreciate knowing that.

What if the legislative committee fails to make the legislative changes that are proposed? Can we have a commitment from you that you will work with the committee well in advance of the date when funds will actually be needed to support these programs. We need to know if a supplemental is needed and try to get the support of the administration before fully funding the program, so that those who are eligible for benefits under the law won't be unnecessarily worried that their benefits are going to be absolutely cut off?

Miss Jarratt. Yes, sir. Of course, we are hopeful that our budget proposals will be accepted, but we certainly would seek some communication if it was needed more frequently than the letter that we provide on the 15th of each month.

FOOD STAMP COSTS

Senator Cochran. What worries me is we will get the monthly report showing that there may be a shortage of funds later in the year. If the legislative committee does not act, I would hope that the committee could expect not only a monthly report, but also a request for additional funds so that we won't be wondering what the plans of the administration are for funding the program.

I know that Senator Helms, Chairman of the Agriculture Committee, has scheduled hearings to begin on March 29 on the proposed changes the administration has submitted and on the reforms that were made in the previous years to see how they are working. So, there will be action in the committee toward considering fully the suggestions of the administration.

We are in an unusual position, I think, in this subcommittee with respect to these programs. Our job, as I see it, is to try as best we can to project what the costs are actually going to be and make sure that the programs do have the funds necessary to be operated within the terms and under the requirements of the law that are on the books now.

It may very well be that further reforms will be made, and surely, we don't need to appropriate more funds than are really needed. That certainly won't be the intent of this Senator. But, I think it is important that we have the programs funded at a level that will make it clear to everybody that the resources are there to provide the food and nutrition assistance to which the beneficiaries of these programs are entitled under the law and that we remain sensitive to the need to keep from creating anxiety and unnecessary worry throughout the countryside because of inadequate funding.

If the legislative changes that you are suggesting are not enacted, what do you project would be the total cost of the food stamp program during the next fiscal year?

Miss JARRATT. The food stamp program with no legislative alteration would cost $12.7 billion in fiscal year 1983, including $825 million for Puerto Rico.

Senator EAGLETON. Is that $12.7 billion with Puerto Rico included?

Miss JARRATT. Yes, sir.

Senator COCHRAN. What assumptions, if you know, are made concerning unemployment, any further changes in AFDC, or any of these other programs that would have an impact on the number of anticipated participants in the food stamp program?

Miss JARRATT. Unemployment is estimated at 8.1 percent for 1983.

Senator COCHRAN. What about impact or changes in any other social service programs? Are any contemplated?

Miss JARRATT. Last year, as you know, there was some problem, because those changes were not accounted for. This year they are accounted for. We estimate that the combined interaction of last year's AFDC and SSI provisions will cost a little under $500 million.

Senator COCHRAN. That would be added costs to the food stamp program as a result of those changes?

Miss JARRATT. But that is included in our $12.7 billion estimate.

Senator COCHRAN. That is included in your $12.7 billion?

Miss JARRATT. Yes, sir.

Senator COCHRAN. That is good news. I asked the Director of OMB last year, when he was before the Agriculture Committee the same question, and we got the same kind of assurance although he didn't have any numbers to share with the committee. It turned out when we got down to the appropriations process, that there hadn't been any analysis of the impact of changes in AFDC. That helped throw the numbers out of kilter even more.

SCHOOL LUNCH PARTICIPATION

In connection with the child nutrition programs, the school lunch program specifically, you mentioned in your statement that there had been a significant dropoff in participation in that program.

Miss JARRATT. That is 3.5 million, sir.

Senator COCHRAN. You say 3.5 million students are not participating in that program. Is that due to the increased costs of the school lunch program to students because of changes that were made?

Miss JARRATT. It is due to a combination of factors. First of all, there has been some drop in enrollment overall in schools, and we think that about half of the 3.5 million figure is a result of that factor. There are about 1,500 schools that are affected because of legislative changes; 500 of those schools are public schools and 1,000 of those schools are private schools.

You know that last year's Reconciliation Act limited the participation of private schools to those that have tuitions of $1,500 or less per child. So some of the drop in private schools would be because of that factor. The income eligibility criteria were also lowered. So drops within categories are, we think, somewhat attributable to those factors.

Senator COCHRAN. You mentioned the commodity supplemental food program, and as I recall, you mentioned that it really has not played much of a role in the elderly feeding program and that about 87 percent of the USDA appropriation has been used for cash reimbursements, not commodity donations.

I realize you are suggesting to transfer this program to the Department of HHS. Is there any consideration being given by the administration, given all of the surplus dairy products, to sharing these commodities with elderly citizens or school lunch program participants in a greater and more aggressive way?

BONUS COMMODITIES

Miss JARRATT. Yes, sir. We have tried to encourage schools that are participating in the school lunch program to use as much of the bonus commodities as they possibly can. Last year, the Congress authorized demonstration projects for the expansion of commodity supplemental feeding to two elderly sites for the study of delivery of commodities for the elderly. We have begun to solicit comments so that the two sites can be quickly selected and operating this year. I believe that home delivery of benefits is something that the Congress envisioned our looking at for those two projects.

We have had conversations with the Department of Defense about trying to use more of our commodities for feeding for defense. We are experimenting in the Waterloo, Iowa, area with butter delivery. That has been a problem for us. In addition to a storage problem, the butter wasn't packaged in a form that was appropriately sized for households. But we had volunteers in that area who helped cut the butter and repackage it. With nonfat dry milk we have quite a bit of surplus, and we are trying to move it through the schools, but that has a market displacement potential more than the other commodities. But we are trying to do as much as we can.

As of February, 1982, a total of 650 million pounds of commodities had been purchased with a value of $542 million.

MEAL PATTERNS

Senator **Cochran**. Last year, a great firestorm of protest arose when an effort was made to change the guidelines or requirements in the school lunch program for the daily nutritional requirements for students. What is the status of those guideline changes now?

Miss **Jarratt**. Under reconciliation, when Congress made cost savings in the child nutrition programs through reduction in subsidies to the nonneedy child, they asked the Department to address ways, including looking at the meal provision, that might help local officials offset the cost of production of their meals. The administration did address the meal pattern issue, as you know, and we did advocate somewhat of a reduction in portion sizes, especially for younger children. There wasn't a reduction in the high school age category.

We feel that those regulations were vastly misperceived. The attempt for accrediting that we were hoping to make optional to the localities was simply to allow the schools to address their food budgets as a housewife does. There are new items coming into the food supply that are nutritionally valid. Some which have a soy base had not been allowed in the meal pattern before the revision was proposed. We also proposed consistency for serving sizes for the same age child across program lines whether it was child care, lunch, or breakfast, because in many cases you have the same lunchroom worker preparing those meals and they are guided by different serving sizes.

A 5-year-old is a 5-year-old, and a meal is a meal. So we thought serving sizes should be consistent. But because those regulations were misperceived, the administration withdrew them. We did go ahead with some of the cost-saving provisions, a number of the labor-saving provisions that were promised. We eliminated the requirement for the State plan. The budget effect of those provisions is hard to estimate, but we do know that they have saved States and local districts some money. We did come out with a regulation based on congressional action that would extend the offer versus serve concept to younger children. That has been in place since 1978 for high school children.

The concept is that the meal still has the same nutritional requirement, the same recommended dietary allowance standard, and the child must be given three components of the five offered. The States would have an option of requiring the fourth item or the fifth; they could maintain that a portion of that fourth and fifth item would have to be taken; or they could decide to provide the entire servings for the fourth and fifth items.

The Federal requirement is that the full three components must be there and that the States may address how they wish to deal with the fourth and fifth items if the child rejects it. The key is the rejection by the child. If the child wants four or five components, he must have the four or five components.

Senator **Eagleton**. With regard to the regulations that you have referred to three times as being misperceived, are you referring to the ketchup regulations?

Miss **Jarratt**. Yes, sir.

Senator **Eagleton**. You think those were misperceived?

Miss **Jarratt**. Yes, sir.

Senator **Eagleton**. Didn't you withdraw them?

Miss **Jarratt**. Yes, sir.

Senator **Eagleton**. Where was the misperception?

Miss **Jarratt**. I think the misperception was with the public, and perhaps we did not do as good a job communicating what the intent was as we should have.

Senator **Eagleton**. So the misperception was at the Department of Agriculture?

Miss **Jarratt**. Maybe we have to clarify the misperception.

GUIDELINE FLEXIBILITY

Senator **Cochran**. I have had an opportunity on three or four different occasions to meet with and discuss the school lunch program with people out in the counties and at the State level who really have the job on a day-to-day basis of providing food on plates and running the program. One of the complaints that I keep hearing, since some of these changes were made last year, was that there was not enough flexibility in the guidelines and regulations from the Department of Agriculture in the school lunch program. There was an assumption that the folks up here in Washington knew more about how to provide a nutritional diet and meal for children than the folks out there in the schools who really had the problem that they were confronting day to day.

Miss **Jarratt**. I certainly share that.

Senator **Cochran**. I don't see anything wrong with giving them a little more flexibility, because there seems to be a built-in assumption that people are just smarter because they happen to work in Washington. I don't think that is necessarily right.

Miss **Jarratt**. I think it is perfectly possible under the current meal pattern to serve an absolutely freakish meal, but local officials don't do that. They hear about drops in participation and unacceptance much faster than we do here at the Federal level. To suggest that the local people would serve ketchup and pickle relish as main components of the meal is an insult to the integrity of the schools who provide service. They are well versed in merchandising, and they are just as concerned as we here are that the child have an adequate meal. I think they do very well. I think that you could have pork and beans, a slice of bread, a glass of milk, a hard-boiled egg and some mashed potatoes on a plate under the current meal pattern. It would not look very good. Probably the children wouldn't eat it. But technically you could get away with it. You could get reimbursed. I think to suggest that schools and service people do that and do it intentionally is misleading.

Senator **Cochran**. My experience has been that those who are involved in the programs in the schools are very conscientious, and they do want to do a good job. But my impression just in my contacts with the people who are involved is that they are just as conscientious, maybe even more so, than those here in Washington about providing nutritional meals.

Miss **Jarratt**. The visits that we have made around to look at schools where it is in place show that it is working differently in different sites. We think that overall the school that uses the concept will be able to save about 4 or 5 cents a meal. Obviously, the effectiveness of that proposal depends on how well the schools monitor the acceptance of the components they serve. Take an item that is rejected. I think the logical school service worker would withdraw it and try to work it into a different menu or do something else. For example, reprocess it in a form that will be acceptable to the children. They are well versed in that.

Senator **Cochran**. We used to try to throw away all the liver in my school, but the nutritionist and the lunchroom manager were tough. We kept getting it. We ended up liking it after awhile. If you are hungry enough, you will eat liver.

PAPERWORK BURDEN

One other complaint that I hear a good deal in just the short period of time that I have been involved with this subcommittee and the Agriculture Committee in the Senate is that lunchroom managers are having a very hard time filling out all the forms and reports and keeping up with the paperwork that is required of them by the Food and Nutrition Service.

I do know that that message has been received up here and that some effort is being made to simplify and make less onerous the burden on the staff there in the schools.

As a matter of fact, one person told me that instead of attending to the preparation of food, serving of the food and all this, they had to use people who would ordinarily be engaged in trying to make the lunchroom a pleasant place and the food more tasty. They were in the back office filling out forms. It was a very difficult situation, and their suspicion was that once they sent this report to Atlanta or wherever it has to go, nobody read the reports.

If they do have enough staff in the regional offices and in Washington to read all of these reports, you wonder then what are those people doing besides reading the reports? After they read them, what do they do, throw them in the basket, file them away? What is the sensitivity to that problem at the Food and Nutrition Service?

REDUCING RECORDKEEPING

Miss **Jarratt**. We are very sensitive to it. The schools I visited, I think, have some of those kinds of problems. Of course, a lot of that paperwork involves submission of claims for reimbursement for the meals served to children, and they have to keep records of that on a daily basis. We did eliminate the cost accounting form which we estimate will save about 8 million hours a year across the country.

We are trying to reduce the number of forms to those that are absolutely essential and also reduce their frequency. We have already eliminated the requirement for the State plan. We feel we can effectively address some of those issues in the AIMS review. Although we are cognizant of the problem, we haven't done as much as we would like. But we are trying to resolve it.

Senator **Cochran**. Have you found that some schools, because of the burden of complying with Federal guidelines and regulations and filling out forms, are saying we will just do it by ourselves? Is there any reason why a school can't decide that it doesn't want your advice, it doesn't want your money, it will have a lunch program, but it will just handle it alone?

How many schools in the country are doing that? They have a school lunch program, but they are saying we don't want your help.

Miss **Jarratt**. I think they very much want the school lunch program. They recognize there has to be some Federal involvement in it. I am not now proposing it, but I wonder if maybe it might not be more appropriate to monitor the meal on the production basis rather than on the serving sizes on the plate. For example, a cheese sandwich, you pull out one plate and you measure the weight of the cheese sandwich. If it is a fraction of an ounce off, the whole serving in that school that day is rejected. Obviously, I don't think that would be an intentional violation by the school food service workers.

These are the things that we are looking at. Obviously, we won't make a decision without talking with the school food service people, because we want to make sure any change we make works well everywhere. But I do think that we have overly regulated this program.

Senator **Cochran**. Senator Eagleton?

Senator **Eagleton**. Thank you, Mr. Chairman.

Let me say at the outset that whatever line of questioning I may pursue, I don't blame the eight witnesses before us today for what I consider to be a grossly inadequate end result. They have to work within the constraints of their superiors, the Office of Management and Budget, and also, the President of the United States. So I state that as a premise to the questions that follow.

1982 FOOD STAMP ESTIMATES

In the nature of a housekeeping question, earlier in your testimony you said that $11.3 billion would be adequate for the food stamp program this year, yet just a day or so ago before a House subcommittee you said it would take $11.6 billion. You testified before the House Subcommittee on Domestic Marketing, "The food stamp program grew from costing less than $1 billion in 1970 to an estimated $11.6 billion in the current fiscal year."

I am not going to quibble about an innocuous $300 million, but as old Senator Dirksen used to say, "A few hundred million here and a few hundred million there, and you are talking real money."

Miss **Jarratt**. I believe the $11.3 billion does assume that we will get the almost $300 million in savings from the 1983 proposals, three of which we would hope to implement on July 1, 1982.

Senator **Eagleton**. These are the miraculous legislative changes you are going to get by July 1?

Miss **Jarratt**. Yes, sir.

Senator **Eagleton**. I won't belabor this point, but I want to clarify it for the record.

Did any of the eight of you come to your present job off the farm? [Laughter.]

Miss **Jarratt**. I was a part-time farmer in the summer. I spent my summers on a farm.

Senator EAGLETON. But you came from a House legislative committee, didn't you?

Miss JARRATT. That is right.

Senator EAGLETON. These others come from the lobbying fraternity and what have you. But none of you here have any manure on your shoes, do you? OK. [Laughter.]

You were submitted some questions, Ms. Jarratt. Congressional committees love to submit questions in writing to people and love to get written answers. It is almost like the committee reports that Chairman Cochran was talking about. I don't know who ever reads these written things when they come back. Staffs make a career out of it, but my staff read this one.

FOOD STAMP BENEFITS

This question was submitted to you in writing: "There are allegations that the proposed benefit cuts are unduly harsh to the poor, elderly, and disabled. Are these allegations true?" It is quite a long answer. If you want, I will put the whole thing in the record, but the sentence that caught our eye was this one: "The total value of food stamp benefits for households in poverty will be reduced by only 11 percent while the benefits to those above poverty will be reduced over 65 percent."

Do you remember that answer, or that sentence?

Miss JARRATT. May I have Christie Schmidt answer that?

Senator EAGLETON. Surely.

Someone is living in poverty; that individual, chances are, has just been hit with a utility bill increase of staggering dimensions. The statistics show that poor people live in housing that has broken windows, isn't winterized, doesn't have all kinds of weatherization, and that their utility bills go through the roof even faster than any other segment of the economy.

So somebody living in poverty has their utility bill go through the roof and such other living incidentals in this expensive world go through the roof and you give a written answer that their food stamps are going to be cut only 11 percent. I guess I am harping on the word "only." 11 percent of one's food purchasing is certainly not innocuous, is it?

Miss JARRATT. No, sir. It is not innocuous.

NUTRITIONAL EVALUATION

Senator EAGLETON. When you formulated your policies, and your policies deal in a wide array of areas, including, as Senator Cochran was pursuing, the composition of a school lunch, your policy decisions included block granting WIC to the States while cutting the funding for the program substantially and knowing that the States will ill attend the program once they receive it, and they included macro budget analysis in terms of the spending levels of the various programs, et cetera.

When you formulated these policies, did you talk with any outside nutritionists as to the ramifications of these policies if they were to go into effect?

Miss JARRATT. Yes, sir.

However, on the WIC grant, I have not talked with any outside nutritionists. On the formulation of the school lunch policies, we certainly did talk with the American Dietetic Association.

Senator EAGLETON. American what?

Miss JARRATT. Dietetic Association.

We certainly have, I think, some very able nutritionists on our staff.

Senator EAGLETON. I believe you do. I believe you do have some able nutritionists on your staff, but do you ever talk to people with respect to any of these nutritional programs like Dr. Jean Mayer, President of Tufts University who is considered the Stan Musial of nutrition in this country?

Miss JARRATT. I have not personally, but Mr. Leard, my deputy, has seen him.

Senator EAGLETON. You have never met Jean Mayer?

Miss JARRATT. I met him, but I have not talked to him on this issue.

Senator EAGLETON. Never talked to him about nutrition? You are in charge of nutrition, aren't you?

Miss JARRATT. Not on this issue, sir.

Senator EAGLETON. But even in your career as a staff person in the House?

Miss JARRATT. Yes, sir.

Senator EAGLETON. Dr. Mayer is a recognized eminent authority in nutrition, and he is not the only one in the country. He is the one, I guess, with the most prestigious reputation. Would you be interested in knowing what he thinks the effect of the administration's policies will be with respect to the quality of nutrition in this country if your proposals are carried into effect?

Miss JARRATT. Yes, sir. I believe he does not favor the cut of the WIC program.

Senator EAGLETON. That puts it very delicately. He thinks these proposals border on disaster insofar as nutrition is concerned. He is not alone in that. He is one of many.

Does the opinion of people like Dr. Mayer concerning the nutritional ramifications of these policies have any impact on the judgmental process that goes on within the Department of Agriculture?

Miss JARRATT. Certainly.

ELDERLY BENEFITS

Senator EAGLETON. What, in your presentation today, gives any manifestation of that statement. For instance, regarding your food stamp proposals, the Congressional Budget Office estimated that 92 percent of all households with elderly or disabled members would either have their food stamp benefits reduced or eliminated altogether. Nutritionists tell you that such a reduction is going to have an oppressively negative impact on the nutrition for those senior citizens and those disabled individuals. When you hear that, how do you react to what they say?

Miss JARRETT. Sir, I think it is important to keep in mind that with all these proposals we have looked at the overall picture.

The elderly happen to be among the higher income participants on the food stamp caseload. They also happen to have access to a number of other programs, and many of them cut across program lines in their participation. So the overall impact of the projected food stamp cut is that those who do receive a cut receive a cut of $13 a month.

Senator EAGLETON. Ms. Jarratt, in defense of you, page 13 of your prepared testimony today says this; second paragraph: "Recent data on the food stamp program have indicated that despite recent rises in unemployment, the overall participation in the program has remained stable indicating that the less needy have already been removed from the program."

What is inferred in that statement is we have struck the less needy, whoever they are, and now we are about to take dead aim on the sort of needy, the pretty needy, the needy-needy, I don't know when you hit those truly-truly needy. That is what is inferred by that second paragraph on page 13.

It is more than inferred by the figures. A current services spending figure for food stamps, as was brought out by the Chairman, with Puerto Rico included, would be $12.7 billion, yet your fiscal year 1983 proposal is—I can add in Puerto Rico—is about $10.3 billion. So there is a decline from $12.7 billion to $10.3 billion. That is a lot of money, I realize, and that is a big cut.

Don't you foresee an adverse nutritional impact from a cut of that magnitude?

IMPACT OF COST REDUCTIONS

Miss JARRATT. Sir, I certainly hope that is not the result of the proposals.

The cuts are designed to impact mostly on those with the higher incomes; those with the lowest incomes are not affected by the proposal.

Senator EAGLETON. We weeded out those millionaire food stamp recipients. I don't know where they ever were, but we have apparently weeded them out. We are talking about some very, very poor people of all races, of all ages, and just fundamental common sense tells you that cuts of this magnitude have to have a significant deleterious effect on the eating habits of those who have been depending on food stamps.

Isn't that so patently self-evident as to be nonarguable?

Miss JARRATT. It may have some severe impact. I would not want to comment on that. The administration would still be subsidizing in some fashion more than 90 million meals a day with this budget.

We subsidize participation of 90,000 schools in this country, all of which we think is worthwhile. I think there are other programs out there that do accommodate their needs, especially the elderly, and I think it is important that we recognize it. If this were the only program that were available to the elderly, I would have grave concerns, sir.

Senator EAGLETON. Food stamps is the principal feeding assistance program to the elderly. There are other programs available to the elderly.

There is home energy assistance. There is welfare, social security, et cetera. You assume, it appears to me, that there is a great deal of elasticity in a senior citizen's or a handicapped person's budget, that he or she has a pretty good pot of money and you can cut their food stamps and they can make it up elsewhere, out of other things they receive. Also, the administration assumes they can make it up out of State assistance that will be provided. That is cockeyed. You assume that private philanthropy is going to come spewing forth to fill the void. All these are absolutely unjustifiable assumptions. But when you have a poor senior citizen out there who is beset with these kind of energy bills and every other expense that I have been mentioning, and you cut their food stamps, there just isn't that kind of slack out there, Miss Jarratt, in the budgets of the individuals that you are dealing with in the real world. There just isn't.

SPECIAL CONSIDERATION FOR THE ELDERLY

Miss JARRATT. I would like to point out that the administration has not touched the special deduction accommodations that we have made for the elderly and disabled. We intend to leave that in place, the net income eligibility limit, the special medical deduction, the unlimited shelter reduction, the higher assets limit. All of these provisions are left intact.

Senator EAGLETON. You are proposing that all home energy income payments be counted as income in determining eligibility for food stamps. You are proposing that, too.

Miss JARRATT. Yes, sir.

We estimate that with the average cost per household for energy, the reduction would be about $8.

Senator EAGLETON. Again, it is that word that crops out of your entire testimony and Secretary Block's testimony yesterday—reduction.

He went through 3 pages of testimony and he got to nutrition. I must say as a credit to the Secretary, he left no nutrition program untouched. Everything was reduced. Some were obliterated, but everything was reduced.

UNEMPLOYMENT ESTIMATES

On your unemployment figures, upon which your budget has to be predicated, of course, and Senator Cochran properly pursued that, you are projecting an average unemployment of 8.1 percent over fiscal 1983; is that correct?

Mr. BOLING. Yes, sir.

Senator EAGLETON. What are your highs and lows in that fiscal 1983 period?

Mr. BOLING. For October-December 1981, it is 8.4 percent; January-March——

Senator EAGLETON. Wait a minute. 1981?

Mr. BOLING. We are talking about fiscal year 1982.

Senator EAGLETON. I was talking about fiscal 1983.

Mr. BOLING. For fiscal 1983, beginning October-December 1982, is 8.4; January-March 1983, is 8.3; April-June 1983, 8.0; July-September 1983, 7.8.

Senator EAGLETON. If you have it on that same sheet, give me your quarterly projections for fiscal 1982, the year we are in.

Mr. **Boling**. Yes, sir. October-December 1981, 8.4; January-March 1982, 9.1; April-June 1982, 9.2; July-September 1982, 8.8.

Senator **Eagleton**. If unemployment in fiscal 1982 and in early months of fiscal 1983 were to get as high as 9½ percent or indeed as high as 10, would that not throw your budget projections for food stamps seriously out of whack?

Mr. **Boling**. Yes, sir. We have always made an estimate, that 1 percent rise in unemployment affects the food stamp costs by about 1.1 million persons or about $600 million.

FISCAL YEAR 1983 CHILD NUTRITION REQUEST

Senator **Eagleton**. We have a document here and I believe you have a similar one out there; maybe you have it, Mr. Boling, a document called "Food and Nutrition Service, Budget Request, fiscal 1983," dated February 8, 1982.

Mr. **Boling**. Yes, sir, we have it.

Senator **Eagleton**. Flip to the page entitled "Child Nutrition Programs," page 5. If you have that, or a comparable page, it lays out on one sheet the various child nutrition programs for fiscal 1983.

Mr. **Boling**. Yes, sir.

Senator **Eagleton**. As I look down that list of child nutrition programs, school lunch received a modest cut, right?

Mr. **Boling**. Yes, sir.

Senator **Eagleton**. From $453 million to $452 million.

Mr. **Boling**. That is primarily the Department of Defense schools, sir.

Senator **Eagleton**. You are right.

Free and reduced price lunches received a modest cut as well, from $1.776 billion to $1.768 billion.

Mr. **Boling**. Yes, sir.

Senator **Eagleton**. School breakfast is zero; is that right?

Mr. **Boling**. Yes, sir.

Senator **Eagleton**. Ms. Jarratt, what is the rationale for zeroing out school breakfasts?

BLOCK GRANT APPROACH

Miss **Jarratt**. The school breakfast and the child care programs are proposed to be consolidated in the general nutrition assistance grant which would be funded at $488 million.

Senator **Eagleton**. That is right. So school breakfast currently funded at $383 million is linked with child care currently funded at $327 million. The total of those then would be $710 million; right? You propose to block grant them at $488 million?

Mr. **Boling**. Yes, sir.

Senator **Eagleton**. So that is about a——

Miss **Jarratt**. A 20-percent reduction.

Senator **Eagleton**. Some 20-percent cut in the block granting process.

Are they going to save all of that money through the super efficiency of the block granting process, these super efficient States that are so super efficient they can't collect their own taxes, for instance?

Miss **Jarratt**. Certainly, I think some efficiencies could be achieved.

Senator **Eagleton**. Do you find a great deal of efficiency out there at the State level?

You get around the country a lot. Are they reeking efficiency out there in Jackson, Miss. and Jefferson City, Mo.?

Miss **Jarratt**. I think that probably their efficiency will improve when there are fewer forms to be filled out.

Senator **Eagleton**. I have found lots of instances in my State where the efficiency is highly obscured. I think when the country gets through this whole block granting process, the country is going to know how obscure that efficiency is. So the school breakfast and child care programs get cut 20 some percent.

Miss **Jarratt**. Sir, that was also guided by our feeling that the family day care portion of the child care program probably has a lot of abuse in it. We do not have the ability to monitor that program in the homes, nor do we have the guarantee that the child is getting as much as he is supposed to be getting. I think there is a lot of potential for abuse there. But I do believe that the State would be conscious of that fact.

SUMMER FEEDING PROGRAM

Senator **Eagleton**. Good old waste, fraud, and abuse. Pretty soon that is what we are going to be feeding kids in school—waste, fraud, and abuse. Now the summer feeding program, you talk about one that is controversial and one that has been criticized for waste, fraud and abuse by the GAO and other people. That receives zero funding. Right?

Miss **Jarratt**. Yes, sir.

Senator **Eagleton**. That does not go into a presumed block grant, does it?

Miss **Jarratt**. No, sir. It is not scheduled for that.

Senator **Eagleton**. Have you ever talked to Dr. Jean Mayer about the consequences of cutting the summer feeding program?

Miss **Jarratt**. No, sir.

Senator **Eagleton**. I have. He pointed out despite the problems that program has, if you take out the summer feeding component in that program—we are into spring and we will be into summer sooner than we know—you may well emasculate that program. You must take into account the sociological ramifications of emasculating that program in cities like Detroit, Cleveland, Buffalo, St. Louis, Los Angeles, and others.

Over and beyond the nutritional side of the feeding program, does your Department take into account the sociological ramifications of some of these cuts, such as the one I just mentioned?

Miss **Jarratt**. We take that into account, sir.

Senator **Eagleton**. Do you have any feeling of your own as to whether the summer feeding component serves as any kind of attractive inducement for participation in the summer program itself?

Miss **Jarratt**. I am not sure I understand your question.

Senator **Eagleton**. Let me ask Mr. Cornelius. He is from a big city or was from one. Do you have any feeling, Mr. Cornelius, as to the significance of the feeding aspects of the whole summer youth program insofar as whether it is an attractive inducement for youngsters' participation in a summer program during the hot months when black youth unemployment in Detroit, Mich., for instance, today is 60 percent and where in St. Louis or in Kansas City, although not quite that appallingly high, is nonetheless appalling in its own right?

Mr. CORNELIUS. I think, Senator, the fact that the kid gets a meal in a program is attractive. However, I don't think that the meal itself is necessarily the thing that attracts the kid to a program.

Senator EAGLETON. It doesn't hurt it, does it?

Mr. CORNELIUS. I don't think so.

Senator EAGLETON. It doesn't drive him away?

Mr. CORNELIUS. It doesn't drive him away, but I see many kids participating in programs where there are no summer meals, and the programs perform just as effectively. So I think while it is attractive, it is not necessarily the sole benefit in a program. I think the program itself, leadership of the program——

Senator EAGLETON. I submit we are going to probably have a test case of your theory this summer, maybe this fall, after the impact of cutbacks in the summer feeding program have been felt. We will decide whether we did the right thing after the fact.

WIC ADVISORY COUNCIL

I have one more question, Mr. Chairman.

Public Law 95-627, Child Nutrition Amendments of 1978, requires a National Advisory Council on Maternal, Infant and Fetal Nutrition to be established and maintained and requires that the Council meet once a year.

Under the Ford and Carter administrations, the Council met 2 to 3 times a year and had a rather distinguished record. However, the last meeting of that Council was in November, 1980. The next meeting was scheduled for March, 1981. That was postponed to April, 1981. Then it was postponed to November, 1981. Then it was postponed to January, 1982. Then it was postponed to March, 1982. Now we have been told it has been postponed again.

Under what authority has the Department postponed the meeting, and why shouldn't the Department be considered in violation of Public Law 95-627?

Miss JARRATT. Sir, we may indeed be in violation. We had trouble getting the group together. I wanted Mr. Cornelius on board. We do have plans to have a meeting of that advisory group.

Senator EAGLETON. You have had a lot of plans to have it. It has been postponed half a dozen times. Can you tell us for sure that there will be one in calendar 1982? You have about 9 months to go.

Miss JARRATT. Yes, sir. We will try to have one in calendar 1982.

Senator EAGLETON. That would be nice.

How many appointees are currently on the Council, and how many vacancies are there?

Miss JARRATT. I am afraid I don't have that material with me. May I submit it to you?

Senator EAGLETON. You have seven wizards with you here. Do any of your wizards know? You have a whole roomful of people with you. You have people whispering in your ear back there. You brought this whole battalion. Every administration does it. Secretary Bergland used to come up with an armada. So there is nothing wrong with bringing the whole Department. Is there anybody in the room from the Department who knows what the membership of the Council is and how many vacancies there are?

Miss JARRATT. There is always one piece of paper we wish we had brought. I am sorry I don't have it. I will try to get it to you this afternoon.

Senator EAGLETON. Can I conclude that this Council does not have a very high focus in your regime?

Miss JARRATT. It hasn't been the No. 1 priority.

Senator EAGLETON. Would you put it in your top 1,000 priorities?

Miss JARRATT. Yes, sir.

Senator EAGLETON. Get back to me this afternoon or send somebody to the phone booth and ask them to find out what the total membership of the Council is and how many vacancies there are.

Is there a reason why you don't want this Council to meet regardless of how many people are on it or how many vacancies there are?

Miss JARRATT. The reason why?

Senator EAGLETON. Yes.

Are you a little nervous about them meeting?

Miss JARRATT. No, sir.

Senator EAGLETON. A little afraid of what they might say if they all got together in a room and some reporters were there?

Mr. CORNELIUS. I think, Senator, the obvious reason why we have the advisory committees is for the purpose of trying to ascertain as much information as we possibly can from people who are in the field. We want to be certain that the committee is well structured, made up of responsible citizens who can give us that information.

Senator EAGLETON. You have to get it well structured?

Mr. CORNELIUS. Such as the person——

Senator EAGLETON. Why don't you put in charge of it the person who ran the National Conference on Aging? He is good at structuring a meeting.

Mr. CORNELIUS. What is his name?

Senator EAGLETON. The person who ran the National Conference on the Aging out of that basement room in the White House. You used to be on the White House staff.

Mr. CORNELIUS. His name is not familiar to me.

Senator EAGLETON. The cloak and dagger person over there.

Mr. CORNELIUS. I worked on the first floor. I didn't work in the basement.

Senator EAGLETON. That person will structure the Council for you. So you have a chance, you can fill the vacancies with a bunch of ciphers and then keep the meeting a little more tepid. The real reason you don't want the Council to meet, and I don't blame you—if I were in your position, I wouldn't want to meet with them either—the real reason is that they are going to blow you out of the water. They are going to tell you what you are doing to nutrition in this country. They are going to tell it to you sort of like it is. I wouldn't want to meet with them either, I guess, if I were at your table up there.

That is all I have, Mr. Chairman.

GENERAL NUTRITION ASSISTANCE

Senator **COCHRAN**. Madam Secretary, Senator Eagleton pursued questions about the school breakfast program, summer feeding program, and the child care food program. The proposal is, as we understand it, to fold these programs into a general nutrition assistance grant to the States. I want to be sure I understand exactly what you are urging Congress to do, and that is to approve the elimination of the summer food service program.

Miss **JARRATT**. There is no reason, Senator Cochran, that if the States wanted to, they could not use some of that general nutrition assistance money for a summer program if they chose that over other programs.

Senator **COCHRAN**. So you are really not proposing to Congress, then, the necessary elimination of any of those four programs—school breakfast, summer food service, child care food program, and nutrition, education and training?

Miss **JARRATT**. That is right.

Senator **COCHRAN**. But that those four programs would be folded into a general nutrition assistance grant, and the States and local areas would decide how to use the funds.

Senator **EAGLETON**. I am sorry. They already testified that they are not folding the summer feeding program into the block grant.

Miss **JARRATT**. The State can use that money for the summer program if they would like.

Senator **COCHRAN**. Last year's appropriation for those four programs came to something close to $800 million. The request for funding all of those programs basically is zero in terms of individual programs, but you have requested a total of $488 million for the general nutrition assistance grant which is a cut of about 40 percent. Is that about right?

Miss **JARRATT**. Yes, sir.

Senator **COCHRAN**. So what is going to happen, in fact, is that if Congress does approve this proposal, then the States and local governments are going to have about 40 percent less money to operate these programs or they will have to pick and choose among them in order to decide where to put the money; is that right?

BREAKFAST PROGRAMS

Miss **JARRATT**. Yes, sir, and the reason for that is, first of all, the programs don't operate everywhere in the country. We recognize that many people think that the breakfast program is the most important or most nutrition-effective of the child feeding programs. We recognize that many people are especially receptive to the summer program, but we think that in looking at an area where we had to make some budget reduction, that the opportunity for the child to be with the parent, where there was some parental responsibility, occurs more often at breakfast time than when the child arrives home from school. So we felt we should not touch the program, and we should allow the locality to have some say with the allocation in the reduced budget.

Senator Cochran. This is going to require legislative authorization.

Miss Jarratt. Yes, sir. It does.

Senator Cochran. Have you presented a proposal to the Congress detailing how the general nutrition assistance grant will be structured?

Miss Jarratt. It has not been submitted. I hope that it will be here within a week. We have gone to the Education and Labor Committee. We have been to the Senate Agriculture Committee explaining the proposals, but we do not have draft legislation before them.

NUTRITION EDUCATION AND TRAINING PROGRAM

Senator Cochran. The nutrition education and training program has been a popular program in my State among those who have been involved in developing curricula and presenting courses on nutrition education. Do you feel that the State and local governments will be able to support continued nutrition education at an adequate level without any Federal Government assistance?

Miss Jarratt. We believe the money that has been spent in the program is seed money that has been effectively used in the development of materials.

ROLE OF HNIS

In our Human Nutrition Information Service, an effort is under way to consolidate the materials and to provide a bibliography by October of this year. We have talked with the American Dietetic Association about the possibility of critiquing some of these materials and servicing some of the better ones. Then we would hope to have them available on a rotating basis in the regions.

Senator Cochran. I wonder, particularly in connection with Ms. Winterfeldt's office, whether you will continue to be involved in providing assistance in the area of nutrition education and training if this program is eliminated by the Congress and folded into the general nutrition assistance grant. Would it have an effect on your agency or your office?

Ms. Winterfeldt. Many of the kinds of programs, I think, would be folded into others and be combined very likely within the States.

Senator Cochran. Do you or do you not at this time engage in providing assistance in the area of nutrition education and training? Do you have any role to play in that?

Ms. Winterfeldt. We have not worked directly in the NET program provision of materials. We are, however, collecting a bibliography of materials that has been developed, and we would expect to continue to disseminate that.

We are working in other ways. For instance, we are in the process of developing a program of nutrition education for the public in cooperation with the American Red Cross that will lead, I think, to one that includes a number of these aspects.

Senator Cochran. I recall in questioning representatives of Science and Education, I think, that that office was at one point very much involved in taking an active role in providing information and technical assistance in the area of nutrition education and training.

If I understand this reorganization properly, I thought that was transferred into your office. Is that not true, or has that been a program that has just disappeared?

Miss **Jarratt**. The Food and Nutrition Service is reimbursing the Human Nutrition Information Service about $90,000 this year for lending nutrition materials to the schools. So the schools will have some access to that, and we hope through the effort with the American Dietetic Association that we can also circulate more of the NET development materials.

USE OF NET PROGRAM FUNDS

Senator **Cochran**. Were the funds that were being allocated to the State and local governments under the nutrition education and training program being used primarily by instructors who are qualified in this area to teach courses or develop curricula in the nutrition education area?

Miss **Jarratt**. I am going to ask Mr. Braley, who is in charge of our school feeding area, to address that.

Mr. **Braley**. Mr. Chairman, program funds are used to provide training as well as the development of nutrition education materials, both for teachers in the classroom and for food service workers and children.

APPLICATIONS FOR FREE OR REDUCED PRICE MEALS

Senator **Cochran**. Once more, I pass on another observation that I have absorbed in my visits with teachers, lunchroom supervisors, and those who are out there trying to carry out these programs. Apparently, it has become kind of a joke, particularly when they find out that nobody is ever going to look at the applications for free and reduced cost lunches that are obtained from parents, or to verify the information that is included in terms of income or need or whatever else is asked on the application form. There is in some areas, I am advised, widespread misinformation being included in these applications to assure qualification for free or reduced cost lunches. Of course, it works the other way, too. In some areas there are many parents who do not want to have the stigma of qualifying for Federal assistance to help pay the cost of their children's lunches in school. So they don't even apply, even though they may be eligible.

My question is this: Is there any plan to have a program for random audit or looking beyond the application, particularly where you have evidence that there has been an intentional misstatement of income in an application for the free and reduced cost lunches as a way to indicate to the public that you are going to insist upon accurate information.

ELIGIBILITY GUIDELINES

Miss **Jarratt**. Yes, sir. We are very involved in that. As you know, last year the Congress directed us to publish the eligibility guidelines for the three areas of participation before the school year, but not to put the eligibility cutoff on the application that goes home to the parent.

The Congress has also indicated that some verification must be done. We have a study under way on that so that we hope to have a proposal ready for the beginning of this fiscal year.

I would like Mr. Braley to tell you the details.

INCOME VERIFICATION

Mr. **Braley**. Mr. Chairman, in addition to removing the income limits for free meals, social security numbers are also required on the applications now. So far this year, we have seen a reduction in the number of free applications, I think, associated with the increased potential that some sort of income verification will be done.

The regulations, which we hope to publish very shortly, will be issued in proposed form and will describe some procedures for doing some spot checks on income verification next year to help control this problem.

Senator **Cochran**. Thank you very much.

Senator **Eagleton**. Mr. Chairman, would you yield? You know me. I always like to end on a positive note. That is my style.

I want to compliment Miss. Jarratt. She corrected the President again on a bit of his misinformation. I would like to put into the record an article from the Thursday, March 25, *Washington Post*, headline, "Official Debunks Vodka Anecdote."

"A top Agriculture Department official said yesterday that President Reagan 'was misinformed' when he related how a young man had used change from food stamps to buy a bottle of vodka.

"Assistant Agriculture Secretary Mary Jarratt" went on to tell the President he was talking through his hat. I commend you for that, Miss. Jarratt. I ask the whole article be placed in the record.

[The article follows:]

OFFICIAL DEBUNKS VODKA ANECDOTE

A top Agriculture Department official said yesterday that President Reagan "was misinformed" when he related how a young man had used change from food stamps to buy a bottle of vodka.

Assistant Agriculture Secretary Mary Jarratt, who oversees the nation's $11 billion food stamp program, said it was virtually impossible that such a transaction had occurred.

In a recent interview, Sen. Bob Packwood (R-Ore.) recalled that in response to a question about the prospect for huge budget deficits, the president had said:

"You know a person yesterday, a young man went into a grocery store and he had an orange in one hand and a bottle of vodka in the other, and he paid for the orange with food stamps and he took the change and paid for the vodka. That's what's wrong."

"That example," Jarratt told the House agriculture subcommittee on nutrition, "did not come from the department. We are following up on that with the White House. . . . We will try to find the source of the story."

John Graziano, the Agriculture Department's inspector general, told the subcommittee later that substantial amounts of food stamp funds are being diverted from eligible recipients because of major fraud schemes. He said his office is implementing the limited police powers Congress granted it last year to cope with major illegal food stamp schemes.

Rep. Fred Richmond (D/N.Y.), subcommittee chairman, noting that cash change in any food stamp transaction has been restricted to amounts less than $1 since 1977, said of the president's anecdote, "Show me a store that sells vodka for 99 cents, or really less than 70 cents since single oranges are at least 30 cents, and I'll believe anything."

Senator **COCHRAN**. I know she appreciated that very much. [Laughter.]

Senator **EAGLETON**. I am sure I made her day. [Laughter.]

ALLOCATION OF NET FUNDS

Senator **COCHRAN**. I understand that there is a problem with the distribution of the nutrition education and training funds this year, and you have requested of this subcommittee that language be included in the continuing resolution, or some other vehicle, to allow the minimum payment to States to be reduced from $75,000 to $50,000.

Will you clarify this request?

Miss **JARRATT**. Yes, sir.

May I have Mr. Leard do that?

Mr. **LEARD**. Mr. Chairman, formerly we gave a $75,000 minimum. If we continued to do this, there would be too little left to prorate among the larger States. The areas with very few children would have the same amount of money as some of the bigger States, which is not the appropriate way to handle it.

If you prorate all the funds, then many of the States which only have around 100,000 children in the program would get so little money that they could not have enough to have a manageable program. Then for all intents and purposes, they would have to pull out of the program and not have a meaningful one.

In addition, we had prorated the money based on what we thought was a fair rate. By lowering the minimum allocation from $75,000 to $50,000, we are able to give the smaller States enough money to have a reasonable program and still not take a lot of money from the larger States and penalize them unnecessarily.

We believe that this is a fair approach in view of the fact that the program was $26 million, and now it is going down to $5 million.

Senator **COCHRAN**. Thank you very much.

Senator Mattingly has requested that we present some questions to you in writing. He is unable to be here this morning and asks that you respond to those for the record. If you would do that, we would appreciate it very much.

Miss **JARRATT**. We will be happy to.

[CLERK'S NOTE.—Senator Mattingly's questions and the Departments responses appear on pages 432–434.]

Senator **COCHRAN**. Senator Eagleton and I may have some other questions that we would like to submit in writing for answer in the record.

Miss **JARRATT**. We have the answers that Senator Eagleton wanted for the advisory committee right now.

Mr. **LEARD**. Mr. Chairman, that advisory committee consists of 21 members; there are currently 8 vacancies, but 1 of the vacancies is expected to be filled. The clearance and nomination process is ongoing right now.

WIC PROGRAM LEVEL

Senator **Cochran**. I have one more question in connection with the WIC program. Last year, we were advised that the level of funding for this fiscal year would be adequate to provide the nutritional benefits at the same level as in fiscal year 1981. Has that proven to be correct in terms of level of participation and the adequacy of funding that was made available last year for this fiscal year?

Mr. **Boling**. That is true, sir. We do have sufficient funds. The program presently is running at about 2 million participants as opposed to 2.1 million, which was estimated. We think that some of the uncertainties surrounding the period of the continuing resolution, when States were not sure how much funds they could expect, may have caused that slight reduction. But there are sufficient funds to bring them up to last year's level.

Senator **Cochran**. There will be, then, no request for any supplemental funding of the WIC program; is that correct?

Miss **Jarratt**. No, sir. I believe we spent at the level of $895 million in fiscal year 1981, and our projected expenditure rate is $955 million for 1982. That represents an increase of 6.7 percent.

Senator **Cochran**. Thank you very much for being here. We appreciate your attendance at the hearing and the way in which you have responded to the committee's questions.

SUBMITTED QUESTIONS

The written questions which have been submitted to you for response will be inserted at this point in the record.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

FOOD AND NUTRITION SERVICE

QUESTIONS SUBMITTED BY SENATOR COCHRAN

FISCAL YEAR 1982 FOOD STAMP SUPPLEMENTAL

Question: We have a proposed Fiscal Year 1982 food stamp supplemental of $1,006,616,000, since Congress provided only a partial-year appropriation last year. Are you confident, based on the latest participation data and the proposed legislative changes, that this request is adequate to carry out the program for this year?

Answer: Based on the current rate of program expenditures in the Food Stamp Program and the savings expected to be achieved from early enactment of proposed legislative changes, the Department believes that the supplemental request would be sufficient to carry out the program this year.

COST PROJECTIONS

Question: What would be the projected costs and/or savings in the Food Stamp Program if the current year index figure for growth is used?

Answer: Four aspects of the Food Stamp Program are adjusted periodically: the income eligibility limit, the Thrifty Food Plan, the standard deduction, and the dependent care/excess shelter deduction. There is no single index to adjust these provisions, rather each is updated in a somewhat different fashion. If we eliminate these adjustments, however, and maintain the current values of each throughout Fiscal Year 1983, savings would amount to approximately $1.6 billion. Most of these savings, nearly $1.5 billion, are achieved by freezing the value of the Thrifty Food Plan at its current level.

Freezing indexing, however, does not accomplish needed restructuring of the program to redirect benefits to those in most need. In fact, freezing indexing hurts all participants and hurts lower income participants particularly hard as they have to deal with the reality of the increased cost of living.

Question: If the 1983 index figure were used, whatever that might be?

Answer: If the adjustments are made as scheduled in Fiscal Year 1983, food stamp benefit costs will increase by $1.6 billion. These costs are included in the Administration's projections of program expenditures under both the current program and the 1983 budget proposals.

Question: If Congress were to mandate only a four percent increase, thus placing a cap on the index?

Answer: Limiting increases in the income limits, Thrifty Food Plan, standard deduction, and dependent care/excess shelter deductions to four percent would save about $1.0 billion in Fiscal Year 1983. Again, most of these savings ($970 million) are due to the limited increase in the Thrifty Food Plan.

PROGRAM PARTICIPATION

Question: What is the latest month for which you have food stamp data?

Answer: January 1982 is the latest month for which we have accurate data.

Question: How many people received food stamps during that month?

Answer: The reports received from the States indicate that about 22,124,000 persons participated in the Food Stamp Program in that month.

Question: How many people will be excluded or dropped from the program as a result of the proposed budget cuts?

Answer: The Fiscal Year 1983 proposals are expected to reduce average monthly participation by about 3.2 million participants. Nearly 900,000 of these participants will be excluded by improving the accuracy of the food stamp benefit determination and reducing the rate of error.

Question: How many would be excluded if Congress mandates a four percent cap?

Answer: A four percent cap on the increase in the income eligibility limits, in the absence of any other program change, would exclude about 380,000 participants. Caps on the remaining cost-of-living adjustments would not be expected to decrease participation.

PUERTO RICO BLOCK GRANT

Question: Has the Department made any kind of preliminary study of the implementation and impact of the Puerto Rico block grant for food stamps?

Answer: Preliminary plans for review and evaluation of Puerto Rico's block grant have been developed. The evaluation will include descriptions of the design phase and options considered by the Commonwealth, as well as analyses of program changes and their impact. We have discussed these plans with Commonwealth officials and have their agreement on the need for such an effort.

As you know, the design for the nutrition assistance grant in Puerto Rico has been left up to the Commonwealth within limits set by law. Because the new program had not yet been designed by Puerto Rico, we did not go beyond this preliminary preparation. Puerto Rico's plan of operation for the grant has now been received and we will be able to move ahead in preparing and implementing the evaluation.

Question: What is the status of this study?

Answer: The preliminary evaluation plan has been prepared and includes a descriptive case study and an impact study. The case study, which will begin in May 1982, will describe the planning, conversion, implementation, and actual operations of Puerto Rico's new Nutrition Assistance Program. The impact study will assess the effects of the change to the new program on program participation, benefits, costs, and errors.

Question: Has Puerto Rico provided you with any kind of operational plan, which is to become effective in July of this year? What type of information will be included in this plan?

Answer: FNS has received the Commonwealth's proposed plan of operation for the Nutrition Assistance Grant which will be implemented on July 1, 1982. The plan includes the following types of information:

-- the name of the agency which will administer the nutrition assistance grant,

-- a description of the needy persons residing in Puerto Rico and an assessment of the food and nutrition needs of these persons,

-- a description of the program for nutrition assistance,

-- two agricultural stimulation projects,

-- a budget.

Question: Do you expect that their program will be similar to what is or has been, or substantially different from the current program? Please explain.

Answer: We believe the plan will be substantially different from the past, primarily with regard to the mode of benefit payment.

USE OF SOCIAL SECURITY DATA

Question: It is my understanding that USDA/Food and Nutrition Service has questioned the merits of requiring States to use social security benefit data provided by the Social Security Administration. If this information is not used, how can States identify food stamp recipients who falsely deny receiving social security benefits?

Answer: USDA has not questioned the merits of requiring States to use social security benefit data provided by the Social Security Administration (SSA). State agencies have been encouraged for several years to use SSA benefit data. USDA, however, has questioned the use of wage data provided by SSA, as the sole source of information. Wage data from SSA is often out-dated; in some cases, it is over a year old. Wage data from unemployment compensation agencies, on the other hand, is much more current. While SSA data is usually outdated, the Department still believes it has value. SSA is the only source of information for self-employed individuals and for inter-State information. Also, the wage information can be used as an indicator of a household's employment patterns. The Department believes that wage data from SSA should be used in conjunction with other sources. The 1981 Farm Act provision mandating wage matching will ensure that States develop the necessary computer capability.

UNDERREPORTING OF INCOME

Question: Do you agree with the General Accounting Office that underreporting of income and assets by food stamp applicants and recipients is a significant problem? If not, why not?

Answer: The underreporting of income and assets by food stamp recipients is a significant problem that is currently being addressed by new initiatives. The Department is implementing legislation which allows wage matching with the Social Security Administration or State unemployment data and will soon be implementing retrospective accounting and monthly reporting. These measures are expected to reduce the incidence of client underreporting.

NEW FEDERALISM

Question: Some experts fear that if the Administration is successful in returning welfare programs to the State governments, States would let food stamp payments fall off in the future, just as they have Aid to Dependent Children in the past. The Office of Management and Budget Assistant Director Richard Nathan said, "Turning welfare and food stamps back to the States goes against the grain of history. It could create a vicious competition among States to push out and keep out the most vulnerable groups: working-age poor people and their children" by failing to provide adequate benefits. This concerns me very much. (20.9 percent of residents in Mississippi receive food stamps.) Would you care to comment on this?

Answer: The concern you raise is an important one, but I believe it will be allayed by the final design of the "New Federalism" legislation.

As you know, Mississippi currently provides the smallest amount of AFDC benefits to a family of four with no other income. The Food Stamp Program has provided substantial support to these residents of Mississippi. The intent of the New Federalism is that this type of combined support should not disappear.

Rather, the goal of "New Federalism" is the restoration of an appropriate balance between the Federal government and State and local governments. State and local governments are more knowledgeable of the particular needs of both benefit recipients and taxpayers. States are in a better position to establish benefit levels appropriate to the living costs in their local area. Further, along with the proposal that States assume full responsibility for AFDC and food stamps, the proposal is that the Federal government will assume full responsibility for financing Medicaid. This is an important fact to keep in mind, because the Federal assumption of Medicaid costs, which have been growing more rapidly than other program costs, will free substantial State resources in dollars and personnel for the assumption of food stamps and AFDC.

While the design of the "New Federalism" has not been finalized, there are three tenets contained in the framework for the design which address the concerns you have raised. First, there will be flexible maintenance of benefit requirements. Second, transition requirements will be established so that welfare recipients will not face a reduction in basic benefit levels. Third, because of provisions for a maintenance of effort, the program will not result in significant net increases in migration from low to high benefit States.

FOOD STAMP OVERISSUANCES

Question: Historically, States have recovered very few of their overissuances. For example, during Fiscal Year 1981, collections equalled only about one percent of the overissuances. Why is this figure so low?

Answer: States are required to file claims against any household which receives an overissuance of food stamps. Such overissuances may be due to recipient error, fraud, or to State agency error. Claims collections are often difficult because food stamp recipients are low-income people who may not have the ability to repay, especially in cash. Also, recipients who leave the program and have claims against them are difficult to pursue. Moreover, limited State resources are more likely to be devoted to preventing errors than collecting claims.

Question: What is the Food and Nutrition Service going to do about this?

Answer: We are attempting to improve collection of recipient claims by disseminating information concerning effective collection procedures and improving reporting procedures. As an incentive for States to pursue claims, we allow them to retain 50 percent of the value of fraud claims collected and will allow 25 percent retention of claims resulting from recipient errors. We will be allowing the recoupment method of pursuing claims in all but State agency error situations. In addition, an individual found to have committed fraud is ineligible to participate for a minimum of 3 - 6 months, depending on the type of fraud committed and continues to be ineligible until he has agreed to make restitution.

Question: I understand that the Food and Nutrition Service believes assertive collection activity is one of the best ways to reduce future overissuances. What is your agency doing along those lines now to encourage or facilitate aggressive State action?

Answer: As previously stated, we are advising States of effective claims collection procedures; improving reporting procedures; allowing State retention of portions of the value of claims collected; allowing recoupment collection for claims in all but State agency error situations. These actions should stimulate more aggressive State agency activity in the area of recipient claims collections in the future. It is apparent from the claims collection material available that collections are increasing each fiscal year.

WAGE MATCHING

Question: The Food Stamp Act of 1980 (May 1980) authorized States to perform wage matching using a combination of available State and Federal data. We have been informed that final regulations allowing and providing guidelines for this important technique will be issued sometime this spring. Why has it taken Agriculture so long to implement this legislation?

Answer: Regulations giving State agencies the option to access wage data in Social Security Administration (SSA) files have necessitated intensive negotiations with SSA over privacy protections. The 1980 amendments required States which elect to use the SSA data to restrict access under stringent Internal Revenue Service (IRS) privacy protection provisions. These IRS privacy protections are not required for States which access the SSA wage data for AFDC purposes. Negotiations have attempted to resolve the privacy protection differences to facilitate State election of wage match. Following resolution of the privacy provisions, SSA will have available a modified wage-match agreement for State agencies to execute providing them access to SSA's wage files.

FRAUD PROSECUTIONS

Question: In previous Congressional testimony, your officials have told us that the Department is pursuing fraud in the Food Stamp Program. Can you provide information on any new efforts now underway to encourage States to prosecute more fraudulent activity?

Answer: FNS has the authority to fund 75 percent of State costs for conducting fraud hearings, investigations and prosecutions to encourage States to investigate and prosecute recipient fraud. Due to intensive efforts by FNS regional offices, we are happy to report that the number of States approved for enhanced funding for anti-fraud activities increased 68 percent in one year. Currently, 41 States are receiving 75 percent funding for these activities. The Department is continuing efforts to expand anti-fraud activities in the nonparticipating States.

In participating States, the Department is encouraging prosecution by advising States to formulate agreements with prosecutors to ensure that they receive Federal funds for prosecution activities. As a result, some States are now formulating agreements with public and private attorneys for a prorated share of salary costs and other expenses related to prosecution activities.

Question: What would you suggest might be appropriate if such efforts do not induce more vigorous fraud pursuit? For example, does the Department now have sufficient authority to impose penalties if evaluations should show insufficient State attention to fraud reduction or pursuit?

Answer: FNS does have the authority to impose fiscal sanctions if States do not show improvement in areas where FNS determines that the States are negligent. The agency does have controls to monitor State activities and progress in solving identified problems. If a State does not correct a deficiency, the first step is to require the State to submit a plan for corrective action. If the plan is not vigorously pursued, FNS can cut off Federal funds to the State for administrative activities.

We are happy to report that States which had not previously been very active in the areas of fraud reduction and pursuit have increased their staffs and activities. Fraud control is generally receiving higher priority, particularly in major urban areas.

PHOTO IDENTIFICATION

Question: The Food Stamp Amendments of 1980 required Agriculture to implement photo identification; however, its use is not required until November 1982. Currently, only 25 of the approximately 2,900 administrative centers are subject to the requirement. What is the Food and Nutrition Service planning or doing to identify and designate other locations where photo identification is needed to help reduce losses through duplicate issuance of food stamp benefits resulting from acts of clients or third-party fraud?

Answer: The Food and Nutrition Service issued regulations mandating the use of photo identification cards on October 9, 1981. All food stamp project areas with 100,000 or more participants, except those projects serviced entirely by mail issuance, will be required to implement these regulations by November 1, 1982. Seventeen locations are affected by this requirement.

The Food and Nutrition Service also has the authority, in consultation with the Department's Office of the Inspector General (OIG), to designate project areas with less than 100,000 participants for use of photo identification, based on such factors as the level of duplicate issuances. FNS is continuing to review projects before making a final decision about further designations. The agency has preliminarily identified approximately seven additional areas which may be required to institute photo identification under this authority. OIG has concurred with this recommendation. Additional areas may be recommended for implementation, if needed.

AUTHORIZATION TO PARTICIPATE CARDS

Question: Food and Nutrition Service regulations have recently been revised to restrict the frequency and circumstances under which clients can receive replacement authorization to participate (ATP) cards, but the General Accounting Office found that these regulations would still allow some questionable replacements. What are the Food and Nutrition Service's plans to reevaluate these regulations to correct the weaknesses reported by the General Accounting Office?

Answer: The General Accounting Office (GAO) reported that although current regulations allow only two replacements in a six month period and photo identification is required in some areas, improper transactions can still take place. The GAO notes that some areas identified in their report as having serious duplicate issuance problems are not yet required to have photo identification. Also, the new regulations do not ensure that replacements issued under the stricter criteria are for valid losses.

FNS is continuing to analyze the areas which should be required to utilize photo identification. The GAO report will certainly be considered carefully if the mandate for photo identification cards is extended.

FNS is also monitoring the FNS-46, ATP Reconciliation Report, as it is submitted by the States, to determine the extent of the replacement ATP problem and our progress in combating this problem. We will also continue to analyze the results from such sources as management evaluation reviews to further identify areas where improvements can be made both at the local and national level. We are confident that the recent regulations we have issued will reduce improper replacements. If necessary, we will propose further measures to decrease the number of replacements.

The Food Stamp Regulatory Review Task Force recently completed a report containing recommendations for regulatory changes involving replacement of ATP's and coupons. These recommendations are under consideration and may be adopted to strengthen the program.

Question: To what extent has the Food and Nutrition Service reviewed State's monitoring coupon issuance center redemption of expired, altered or unsigned participation cards? The Service should be taking steps to assure that these invalid issuances are identified and that issuers are held liable for the issuances. Please discuss, and where possible, provide statistics.

Answer: FNS annually reviews State agencies' monitoring efforts. In accordance with the current food stamp regulations, each State agency may contract for the responsibility for the issuance and storage of coupons. The State agency is responsible for insuring that all assigned duties are carried out in accordance with the food stamp regulations and for monitoring the performance of coupon issuers. This monitoring is conducted as part of the State's management evaluation review.

Furthermore, the State agency is strictly liable to FNS for all losses of coupons, even if those losses are the result of the performance of issuance, security, or accountability duties by another party. Consequently, FNS does not hold the individual issuer liable for losses, but instead, holds the State liable for all identified invalid issuances. The State agency is required to identify all transacted authorization to participate (ATP) cards that are not reconciled with the household issuance record master file and report these on the ATP reconciliation report. Based on the liabilities identified, direct billings are generated from these reports and issued to the State agencies. The State agencies, in turn, may hold the coupon issuer liable for these liabilities.

For the months of February through September 1981, State agencies reported a total loss of $1,734,197 caused by the transaction of ATP's that were expired, out-of-State, duplicates caused by State agency error or blank ATP's lost or stolen and subsequently transacted. The State agencies are not held liable for altered ATP's transacted since coupon issuers generally do not have the resources or the expertise to identify all altered ATP's at the time of presentation. Furthermore, although it is an error on the part of coupon issuer, the transaction of an unsigned ATP is not a strict liability item unless that ATP is also unreconciled and can be categorized into one of the liability areas listed above.

EVALUATING STATE PERFORMANCE

Question: It is my understanding that there has been little evidence of aggressive efforts to identify those specific cases in which households were provided more than the correct monthly benefit. Why hasn't the Food and Nutrition Service developed any criteria for evaluating States' efforts to identify erroneous payments?

Answer: Food and Nutrition Service has developed criteria for evaluating States' efforts to identify erroneous payments. The current food stamp regulations require all State agencies to establish an issuance and accountability system which will insure that only certified households receive benefits and that these benefits are distributed in the correct amounts. The quality control review system was developed as a way to measure the validity of the food stamp caseload during a sample period and to assist the State in improving and strengthening program operations by identifying deficiencies. However, this system can only identify and correct errors occuring through the certification process.

As indicated by Form FNS-46, the ATP reconciliation report, many errors occur through the issuance process. To insure that all States actively pursue these errors, States are required by the food stamp regulations to establish and pursue claims against any household that has received more food stamp benefits than it was entitled to receive. The States are also required to initiate administrative fraud hearings in cases where there is sufficient documentary evidence to substantiate that an individual has committed fraud.

As part of its Federal monitoring responsibility, FNS reviews on a periodic basis the States' activities in the areas of claims against households and fraud disqualification. States are required to comply with program requirements in these two areas. Corrective action is required whenever deficiencies are identified through these reviews.

An additional evaluative source on the performance of the State agencies in these areas is the investigations and audits conducted by the Department's Office of Inspector General. Through these reviews, program deficiencies are identified and appropriate corrective action is taken.

Question: Does the Department have any performance expectations of the States regarding this matter?

Answer: As previously indicated, the Department does have performance expectations of the States in regard to identifying erroneous payments. As part of the quality control review system, each State's error rate is determined as well as a goal by which the State is to reduce its error rate. Error rate goals are established in relation to the national standard error rate.

Concerning overissuances occurring through the issuance process, the Department's performance expectation is that all issuances are to be handled properly, and the State agencies are liable for all overissuances which are their responsibility.

Question: Would States' failure to satisfy such criteria, if any existed, subject them to the sanction provisions available to penalize inadequate performance in specific program function areas?

Answer: In regard to the quality control review system, each State is held liable if it fails to achieve its error rate goal. Furthermore, States that fail to take proper corrective action on deficiencies identified through reviews, audits or other such sources, may be subject to sanction action in the form of a suspension and/or disallowance of administrative funds.

LIABILITY FOR LOSSES

Question: A recent General Accounting Office report disclosed that while losses through the authorization to participate system have been reported to be about $12 million annually, the inaccurate and incomplete reconciliation reports submitted by some food stamp agencies and the lack of reconciliation reports by others indicate that actual losses are greater. What is the Food and Nutrition Service doing to identify these losses, improve reporting and correct flaws contributing to program losses?

Answer: FNS is continuing to closely monitor the individual reconciliation reports and the increases and decreases in losses reported. We will be working to eliminate losses and implement corrective action measures. The agency has directed the regional offices to work closely with States which are having problems reporting on time or with accuracy. The regional office staff will provide on-site technical assistance, if needed.

FNS recently completed the automation of the reconciliation reporting process. This is expected to be a valuable tool in further identifying States experiencing problems with timeliness and accuracy in reporting. Moreover, it will aid FNS in its analysis of this reconciliation data by providing up-to-date information on a national, State and local basis.

Question: Section 1312 of the Food Stamp and Commodity Distribution Amendments of 1981 and earlier amendments stipulate that State agencies are strictly liable for issuance losses. Food and Nutrition Service's regulations now require that State and local food stamp agencies be held liable for any losses due to issuance of coupons in duplicate authorization to participate transactions but only to the extent they could have been prevented by the State and local agencies. The General Accounting Office found that duplicate transactions could have been prevented, but Food and Nutrition Service has not billed the States or local agencies for these losses. Does the Food and Nutrition Service plan to enforce its regulations and make State and local agencies liable for losses that could have been prevented?

Answer: FNS is holding States liable for duplicate issuances caused by State agency error in those circumstances where the duplicate issuances could have been prevented by the State agency. FNS is completing billings for these losses. Under the current regulations, FNS may offset the amount of loss from a State's letter of credit if the State fails to pay the billing. Further, any State that fails to install proper issuance controls and increases duplicate transactions beyond a nonpreventable level, may be deemed liable for such duplicate transactions under the negligence provision of our regulations.

ISSUANCE SYSTEMS

Question: The General Accounting Office has reported problems with the authorization to participate (ATP) system through which about $8 billion of the $10.6 billion in food stamp benefits were issued in Fiscal Year 1981. Some locations have implemented systems which have drastically reduced losses. For example, demonstration projects in Philadelphia and Pittsburgh required recipients to pick up their authorization to participate card at a coupon issuance location selected by the clients. Losses were almost eliminated through this simple procedure that did not require extra client efforts since they would normally have redeemed their card for coupons at that or some other location. The General Accounting Office has recommended that the Food and Nutrition Service determine those elements of existing authorization to participate delivery systems which are most effective in preventing program losses. Its officials have also recommended that the Food and Nutrition Service direct that the more effective methods be used where appropriate.

Could you give us any details on what the Food and Nutrition Service is doing along that line and what specific action like that occurring in Philadelphia and Pittsburgh is being required of those locations that currently experience substantial losses through weak controls or practices?

Answer: The current food stamp regulations outline the minimum standards that a State must follow if it elects to issue coupons through the use of an ATP. However, the regulations allow great flexibility in the design of these systems. Also the regulations limit replacements of ATP's to cut down on duplicate issuances to households.

In September 1981 FNS contracted with Birch and Davis Associates, Inc., to evaluate the effectiveness of all issuance systems currently operating in the Food Stamp Program. This study involves the evaluation of household issuance record issuance systems, ATP issuance systems, mail issuance systems and on-line computer terminal authorization. These systems will primarily be evaluated on the basis of operational cost and vulnerability to abuse. Although this study will not be completed until spring 1983, preliminary data indicate that the systems least vulnerable to abuse are those systems which eliminate the use of ATP's.

UNREPORTED INCOME AND ASSETS

Question: Do you believe that the General Accounting Office's estimated Fiscal Year 1982 excess benefits of $404 million because of unreported income and assets is reasonable? If not, why not and what is a reasonable amount?

Answer: Based on the quality control system, which measures all errors in a case, it is difficult to come up with a direct cause and effect for overpayments. However, with the information, available, we have no basis for disputing the $404 million estimate.

Question: Do you agree that a substantial part of the excess benefits could be avoided if the General Accounting Office's recommendations were implemented? If not, why not and what are the alternatives?

Answer: We concur that implementation of GAO's recommendations to use Office of Personnel Management, Federal and State and Social Security Administration wage data would reduce the issuance of excess benefits. The extent of this reduction cannot, however, be accurately forecast at this time due to the many variables inherent in State and local management techniques, administration, and computer capabilities.

Question: The General Accounting Office noted in its report and testimony that Agriculture expressed concern about mandating specific wage and benefit data matching and that data matching should be left to the discretion of the States. Does the Department feel that without any Federal mandates the States would accomplish adequate income and asset verification?

Answer: The General Accounting Office report was issued prior to passage of the December 1981 Farm Bill mandating that States conduct wage matching with the Social Security Administration or the State employment security agency. FNS is fully committed to wage matching at the State and local level. It is, in fact, one of the top priorities. States recently warned about high food stamp error rates were advised that they must plan wage matching in addition to other means of reducing the rate of error to be excused from liability for the high error rates. Thirty States are now conducting wage matching on their own initiative. This is an indication of State interest in accomplishing adequate income and asset verification.

WAGE MATCHING

Question: What action has Agriculture taken to implement the General Accounting Office's recommendations?

Answer: The Department has taken steps to implement the recommendations. In addition to the proposed rule allowing optional State wage matching activity and proposed regulations implementing mandated State wage matching with the Social Security Administration (SSA) or State employment service agency data, the Department has taken the following actions:

-- The Office of the Inspector General (OIG) used Federal employee rolls provided by the Office of Personnel Management(OPM) in a match against six States' food stamp files. The match found 2,500 - 3,000 cases of Federal employees receiving program benefits. OIG believes most of these recipients will be found to be eligible but is in the process of examining the results further. Based on these results, we will consider having State agencies assume more responsibility for using the OPM data.

-- SSA wage data stored in BENDEX and SDX systems is not currently available to the States. In order to make this data available, SSA must approve a model agreement specifically addressing this subject and providing a basis for individual agreements with States. Once this model is approved, States may proceed to establish individual agreements with SSA to obtain required wage data for matching purposes. We are currently involved in discussions with SSA concerning this model agreement.

-- We are pursuing additional efforts to study effects of wage matching among the States. The Food and Nutrition Service has been an active participant in the Interagency Computer Matching Task Force operating under the auspices of the President's Council of Integrity and Efficiency. The project is aimed at improving the use of computer matching and related techniques, and identifying specific, feasible and desirable matches. We are also surveying State agencies to determine the status of current wage match efforts.

-- We are requiring fourteen States whose quality control data reveals high overpayment error rates to implement wage matching prior to publication of proposed regulations mandating wage matches. We believe this action should substantially reduce error rates in these States.

-- We are proposing regulations to mandate the wage matching requirement that States include social security numbers in their automated data base. We are advising the FNS regional offices to work with States without social security numbers in their data bases to correct this deficiency. This will insure that all States will be prepared to implement wage matching promptly and efficiently when final regulations are published.

REDUCED STAFFING

Question: In your statement you indicate a proposed reduction of $1 million for Fiscal Year 1983 Food Program Administration, also a reduction of 215 staff years in addition to the reduction of 221 achieved in Fiscal Year 1982. How will this reduction in staff years be accomplished -- through attrition, RIFs, etc. Please break out for the record.

Answer: As you have indicated, FNS is making a significant reduction in staff years in 1982 through attrition.

This rate of attrition is normal and could be expected to continue into 1983. Certainly, reductions in force are a last resort due to the disruptive effect on an agency's productivity. At this point we are studying alternatives for implementation of the proposals to end the Summer Program, the WIC Program, the Special Milk Program, and the transfer of the Elderly Program in order to devise means for redeployment of existing staff to the maximum extent possible.

SCHOOL LUNCH PARTICIPATION

Question: Recent studies show that some 3 million children have stopped participating in the Federal School Lunch Program since Administration budget cuts took effect last September. Schools across the nation have increased their prices and tightened their eligibility requirements for free and reduced price lunches, because of cutbacks in Federal food subsidies which began last fall. Does this figure coincide with that of USDA?

Answer: The Department normally uses the number of average daily lunches served as the most accurate indicator of school lunch participation. A comparison of this measurement for October 1980 with the preliminary estimate for October 1981 shows a decline of about 3.6 million average daily meals, or about 14.5 percent.

Question: How many schools have become Lunch Program dropouts this year?

Answer: Estimates based on preliminary participation data for the current school year, when compared with data for the previous school year, indicate that about 1,700 schools and residential child care institutions have discontinued participation in the program. Included in this number are about 1,000 private schools which charge over $1,500 in tuition and are, therefore, excluded from eligibility under the new legislation. Another 200 are residential child care institutions. The number of public schools participating has declined by 500, approximately one half of one percent of the total public school participation. Some of these 500 schools dropping out is due to school closings and consolidations.

Question: Did these schools drop out because of the reductions in last year's budget?

Answer: While some of the 500 public schools may have discontinued school lunch operations because of a decrease in revenues or student participation, the continuing trend of school closings and consolidations also contributes to this decline.

Question: Do you have any kind of reading as to how many additional schools may have dropped out, but didn't because districts picked up the additional costs?

Answer: Information routinely collected by FNS does not reveal whether school food authorities are receiving additional resources to maintain their programs. However, recent informal surveys last fall of States confirm that school lunch programs have been streamlined or made more cost effective in a variety of ways. Thus, while it is possible that a number of programs may have been helped by the infusion of additional local resources, this increased support would be combined with improved management practices that have been undertaken to offset additional costs.

Question: You mentioned in your statement, Miss Jarratt, that you expect school lunch participation to recover or increase later in the year. Why is this?

Answer: Studies of the effect of price increases in the School Lunch Program indicate that when a price increase becomes effective, there is an immediate decrease in participation. However, after the price increase has been in effect for a period of time, students tend to return to the program. They may view the new price as more reasonable compared to prices for alternate forms of food. In fact, this year we are beginning to see a small recovery in participation. In October 1981 participation had decreased 14.5 percent compared to October 1980. By December 1981, the participation decline had been cut to 12.5 percent compared to a year earlier. Our preliminary data from January 1982 also indicate that the recovery is continuing.

INCOME VERIFICATION PILOT TEST

Question: At last year's hearing we had a discussion regarding new requirements or procedures for verifying eligibility for the School Lunch Program. It was indicated at that time a number of pilot tests on income verification were underway. What were the results of those tests?

Answer: The income verification pilot study began in July 1981 prior to the passage of P.L. 97-35. The first year of the project was intended to assess the effects of the legislated and program changes in the application process for free and reduced price meals. The assessment is now occurring in 13 school districts. Preliminary findings from nine of the sites located in Florida (five sites), New York (two sites), Kansas (one site) and Maine (one site) reveal that the new application process is associated with a 10 percent reduction this year in the number of free meals served to children in the National School Lunch Program compared to participation rates at control schools within these school districts.

It is important to understand what this 10 percent figure means based on work done so far. Since the estimate was derived from a controlled field experiment it is clear that: the changes in the application process are most likely responsible for the participation drop, and this reduction is over and beyond any effects on participation associated with other factors, such as school lunch price increases and adjustments in the income eligibility guidelines. But there is no strict statistical basis for generalizing from these nine sites to the nation as a whole. Also, it is not clear at this time which of the changes in the application process in particular (namely, requiring social security numbers, requiring monthly family income by source or omitting free meal guidelines) is responsible for the reported decline in program participation. Finally, it is unclear as to whether this decline in participation resulting from changes in the application process represents a true deterrence to fraud or a barrier to participation by eligible households. There are plans this spring to complete the analyses at all 13 sites and resolve several of the uncertainties in the interpretation of these preliminary findings.

Question: Do you still feel legislation would be necessary in order to change the present procedure? If so, have you proposed any such legislation?

Answer: The Omnibus Reconciliation Act of 1981, Public Law 97-35, enacted August 13, 1981, contained several provisions concerning free and reduced price meal application verification. (1) The Secretary, States and local food authorities may seek verification of data contained in the application. (2) Local school food authorities must undertake verification as prescribed by the Secretary, and make appropriate changes in eligibility determination based on such verification. (3) The social security numbers of all adult household members are required for the receipt of free or reduced price meals. (4) Appropriate documentation of household income or documentation that the household participated in the food stamp program is required of free and reduced price meals. Beyond these provisions, we feel that no further changes, legislative or otherwise, involving income verification are necessary at this time.

SCHOOL LUNCH SURVEYS

Question: Every year the USDA goes to the schools that participate in the School Lunch Program and asks for their commodity food preferences. Supposedly, these responses are used to determine which commodities will be bought and their quantities. I have had several complaints from school administrators and school lunch managers indicating that they are growing weary of being asked their opinion and not having it considered. Why is it necessary to conduct these surveys? Perhaps, this would be a way to save some money if we discontinued some of these surveys. Please comment.

Answer: Public Law 95-166 requires that the Secretary establish procedures to ensure that the views of school districts are reflected in reports with respect to State commodity preferences and that such views are considered by the Secretary in the purchase and distribution of commodities and by the State in the allocation of such commodities. Further, each State education agency shall establish an advisory council to advise them with respect to the needs relating to the manner of selection and distribution of commodity assistance. Food Distribution Program regulations give State food distribution advisory councils the latitude to plan the method of data collection, the format used, and the scope of the survey. In other words, the advisory councils, based on their financial and personnel resources, can develop the food preference report in a manner they feel is most cost effective and appropriate to their particular situation.

While surplus removal and price support factors sometimes take precedence when determining commodity purchases, the food preference reports are taken into consideration particularly on purchases made to meet a State's commodity entitlement level. Further, the Department does have flexibility in purchasing and determining the form in which we buy certain commodities and the quantity. Some flexibility also exists in determining the funding of a purchase, the manner in which it is offered, and what outlets should receive certain commodities. Where flexibility is permitted and choices are available, the Department uses food preference reports as a source of information to refer to in making a decision. Also, when patterns of unacceptability are noted, the Department needs some documentation to take action. The food preference reports provide this. For example, the Department sought alternative poultry products (turkey roasts and breaded chicken patties) because of reports that turkey rolls and canned boned poultry were unacceptable.

Although we could not purchase all of our poultry products in the most preferred form, we were able to buy some turkey roasts and breaded chicken patties. Further, this year because of food preferences and budgetary restrictions, the Department limited potato purchases to frozen products. Dehydrated potatoes were excluded because they were low in acceptability, compared to frozen potato products.

A State distributing agent's ordering/acceptance policy is an important factor in determining actual purchases. Although a distributing agent can only order or accept what is available, like the Department they have some flexibility to determine the amount, form, and pack size their State will receive. For the report to fully serve its purpose, the distributing agent must be willing to use their State's report internally when responding to offers and ordering.

CASH IN LIEU OF COMMODITIES

Question: It is my understanding that some 96 school districts in 27 States will participate in the Congressionally-mandated study of cash in lieu of commodities and commodity letter of credit alternatives to the present USDA donated foods program. The pilot schools have been selected. Please provide a listing of these schools for the record. What is the status of this pilot project?

Answer: In addition to six school systems that are participating under a cash in lieu program based on their involvement in the Department's 1977-78 cash in lieu pilot project, the current pilot project will include 96 school districts from 29 States. We are providing a list of these school districts, by State, as requested. Please note that this list remains subject to revision and that not all districts listed have formally committed to participate as pilot project sites. Final pilot site designations will be available by May 15 of this year.

With respect to the status of the pilot project itself, the Department is in the final stages of conducting training sessions for pilot project sites. These sessions will be completed by the end of April of this year and the pilot project will be fully operational by July 1.

Plans to evaluate the letter of credit and cash alternatives have been prepared and the Department is currently in the process of submitting data collection forms to the Office of Management and Budget for review and approval. Initial pilot site visits for the purposes of baseline data collection will begin later this spring. In general, the pilot project is proceeding as planned and should be fully responsive to the Congressional mandate.

PARTICIPATING SCHOOLS

Arizona

Nogales Unified School District No. 1 - Control
Flowing Well Schools - Commodity Letter of Credit
Page Unified School District No. 8 - Cash

Arkansas

Elaine School District - Cash
Green Forest School District - Commodity Letter of Credit
Smackover School District - Control

California

Gilroy Unified School District - Commodity Letter of Credit
Huntington Beach City School District - Cash
San Diego Unified School District - Control
Castro Valley Unified School District - Control

Colorado

Aurora Public Schools - Control
Adams County School District No. 50 - Cash
Weld County School District - Commodity Letter of Credit

Connecticut

Windsor Public Schools - Commodity Letter of Credit
Enfield Public Schools - Control
Greenwich Public Schools - Cash

Florida

Broward County School District - Control
Hernando County School District - Commodity Letter of Credit
Monroe County - Cash
Jefferson County School District - Control

Georgia

Laurens County School District - Commodity Letter of Credit
Dublin Independent School District - Control
Worth County Public Schools - Cash

Idaho

Grace Joint School District 148 - Cash
Parma School District No. 137 - Control
Fruitland Idaho Public School - Commodity Letter of Credit

Illinois

Community Unit School District No. 4 - Commodity Letter of Credit
Egyptian Community Unit School District No. 5 - Cash
Pleasant Hill Community Unit School - Control

PARTICIPATING SCHOOLS

Iowa

Urbana Community School District - Control
Parkersburg Community School - Commodity Letter of Credit
Mt. Vernon Community School District - Cash

Louisiana

Caddo Parish School District - Cash
DeSoto Parish School District - Control
Iberville Parish School District - Cash

Maine

Portland Public Schools - Commodity Letter of Credit
School Administration District No. 6 - Cash
S. A. D. #54 - Control

Michigan

Union City Community School District - Control
Madison Heights Public School District - Commodity Letter of Credit
Woodhaven School District - Cash

Minnesota

Menahaga School District #821 - Cash
Gonvick-Trail Community Schools - Commodity Letter of Credit
Granite Falls Public School - Control

Nevada

Washoe County School District - Control
Nye County School District - Control
White Pine County Schools - Commodity Letter of Credit

New Jersey

3 school districts to be selected

New York

Galway Central School District - Control
Cambridge Central School District - Commodity Letter of Credit
Akron Central School District - Cash

Ohio

Buckeye Local School District - Control
Northwestern Local School - Cash
Highland Local School District - Commodity Letter of Credit
Norton City Schools - Cash

PARTICIPATING SCHOOLS

Pennsylvania

Reading School District - Cash
Archdiocese of Philadelphia - Cash
Indiana Area School District - Commodity Letter of Credit
School District of Lancaster - Cash
Mifflin County Public Schools - Control

South Carolina

Lexington School District No. 4 - Control
Lexington School District No. 3 - Commodity Letter of Credit
Edgefield County School District - Cash

South Dakota

Elk Point School District - Commodity Letter of Credit
Oldham School District - Cash
Sully Buttes School District 58-2 - Control

Tennessee

Marshall County School District - Control
Loudon County School District - Commodity Letter of Credit
Humphreys County School District - Cash
Knox County School District - Commodity Letter of Credit

Texas

Victoria Public Schools - Commodity Letter of Credit
Pharr-San Juan Alamo Independent School District - Control
Tyler Texas Public Schools - Cash
Amarillo Independent School District - Cash

Vermont

Twinfield Union School District #33 - Control
Proctor Junior-Senior High Schools - Commodity Letter of Credit
Morristown Schools - Cash

Virginia

Alleghany County School District - Commodity Letter of Credit
Fairfax County Public Schools - Commodity Letter of Credit
Harrisonburg City Schools - Control
Fredericksburg City Schools - Cash

Washington

Longview School District No. 122 - Commodity Letter of Credit
Medical Lake School District No. 326 - Control
Bremerton Public School - Cash
Shoreline Public Schools - Commodity Letter of Credit

PARTICIPATING SCHOOLS

West Virginia

Pendleton County School District - Commodity Letter of Credit
Hampshire County School District - Control
Grant County Schools - Cash

Wisconsin

Merrill School District - Commodity Letter of Credit
Brodhead School District - Cash
School District of River Falls - Control

Wyoming

Converse County School District No. 2 - Cash
Washakie Community Consolidated School District No. 2 - Commodity Letter of Credit
Hot Springs County #1 - Control

SPECIAL SUPPLEMENTAL FOOD PROGRAM (WIC)

Question: The Administration is proposing to eliminate funding for the Special Supplemental Food Program (WIC) and the Commodity Supplemental Food Program. In Fiscal Year 1983 these programs are proposed for inclusion in a $1 billion Department of Health and Human Services grants to States for services for women, infants and children, and it would be administered by the Department of Health and Human Services. What was the participation rate for Fiscal Year 1981? What is estimated for Fiscal Year 1982?

Answer: An average of 2.1 million recipients participated in the WIC Program in Fiscal Year 1981 with a year-end participation of 2.0 million. It is estimated that the average WIC participation in Fiscal Year 1982 will be 2.1 million, ending the year with 2.2 million participating in the program.

Participation in the Commodity Supplemental Food Program averaged 115,000 in Fiscal Year 1981 with a year-end rate of 121,000. Current estimates for Fiscal Year 1982 indicate that participation will average about 134,000.

Question: What percentage of those eligible participated in the WIC Program in Fiscal Year 1981? In Fiscal Year 1982?

Answer: During 1981 and 1982, monthly WIC participation rates are reported as being 2.12 and 2.16 million respectively. Using a rough estimate of the range of total income eligibles for those time periods, the approximate percentage of eligibles served ranges from 25 to 28 percent for both years.

Certain factors influence this range. First, WIC Program eligibility is determined by income and nutritional risk criteria. States may vary the nutritional risk criteria they use within broad national guidelines. Because States are not required to report the number of income eligibles who are screened out due to absence of nutritional risk, one cannot determine the influence of nutritional risk on the number of potential eligibles. Therefore, the actual percent of eligibles served is probably greater than 25 to 28 percent.

Second, the monthly participation rate of 2.12 million for 1981 represents the actual average number of participants served monthly for that year. However, the 1982 figure of 2.16 million per month is a projection of the number of individuals who can participate given total funding and per participant cost. Therefore, if actual average monthly participation is lower, the percent of eligibles who participate in WIC will decrease.

Third, the WIC income eligibility level was lowered from 195 percent of the OMB nonfarm poverty guideline to 185 percent by the Omnibus Budget Reconciliation Act of 1981. The regulations instructing WIC programs of this change were published in the Federal Register September 25, 1981. Therefore, during 1981 more individuals may have been income eligible than during 1982, although States were permitted to use income criteria lower than 195 percent before the legislative change. This would tend to lower the percent of participating eligibles in 1981 relative to 1982. Last, census data on the number of persons at different poverty levels is not yet available to allow a comparison of 1981 and 1982. However, trends in income status of women, infants and children will clearly influence the proportions of eligible individuals who are served by the WIC Program.

WIC PROGRAM COSTS

Question: What was the total cost of the program in Fiscal Year 1981? What is estimated for Fiscal Year 1982?

Answer: The WIC Program cost about $895.5 million in Fiscal Year 1981 and we estimate that about $955.5 million will be expended in Fiscal Year 1982 for the program.

Question: What do you project the participation rate would be if only $1 billion is provided?

Answer: Because each State will individually determine the mix of services to be provided under its portion of the proposed $1 billion block grant for services to women, infants and children, there is no way to determine in advance the level of participation in a WIC or WIC-like program. The participation rate will be influenced by the overall mix of services each State chooses and the system by which eligibility is determined within each State.

Question: What would be the percentage rate of those eligible that would be able to participate if $1 billion is provided?

Answer: Because each State will define the eligibility criteria for the programs offered under the combined block grant, it is impossible to determine in advance the proportion of those eligible that would actually participate in the various programs, including in any WIC programs.

Question: Has the WIC nutritional risk priority system changed from Fiscal Year 1981 to 1982? If so, how?

Answer: The priority system for nutritional risk criteria in both 1981 and 1982 are identical. Requirements of the priority system are described in the July 27, 1979 Federal Register.

Question: How will the proposed grants to States be made? Will it be done on a formula basis?

Answer: Because the Administration's legislative proposal has not been cleared, we cannot say what the allocation formula for the new grant program will be.

COST ESTIMATES FOR THE CHILD NUTRITION PROGRAMS

Question: If Congress mandates a restriction on the cap used as the index reflecting growth in the Child Nutrition Programs, what would be the project costs and/or savings if: (1) the current year figure is used? (2) The 1983 index figure were used, whatever that might be? (3) Congress mandates a cap of 4 percent?

Answer: Using the current OMB economic assumptions, the Child Nutrition Programs will require $2,825.8 million in budget authority for Fiscal year 1983 under our legislative proposals. This is $334.4 million below our estimate of $3,160.2 million under the provisions of current law.

If there is no rate adjustment on either July 1, 1982 or July 1, 1983, we estimate that the Child Nutrition Programs would require an appropriation of $2,615.1 million under our legislative proposals. This would save $210.7 million in addition to the $334.4 million savings from our legislative proposals. Without any further legislative changes aside from freezing the reimbursement rates at the current level, the Child Nutrition Programs would cost $2,889.1 million in Fiscal Year 1983 thus saving $271.1 million when compared to the cost estimates under current law.

A 4 percent cap on reimbursement rate escalation would reduce the cost estimates under our proposed legislation by $79.4 million to $2,746.4 million. The same cap applied to the estimates without any other change in law would put program costs in Fiscal Year 1983 at $3,055.9 million and yield a savings of $104.3 million.

SCHOOL BREAKFAST AND CHILD CARE PROGRAM

Question: You have requested no funds of the School Breakfast ($335 million in Fiscal Year 1982) and Child Care Food ($277 million in Fiscal Year 1982) Programs since these programs are to be consolidated into a General Nutrition Assistant Grant in 1983; the grant to total $488 million. This is a cut of $124 million for the two programs. You have also eliminated $35.4 million for administrative expenses or requirements of these two programs. What will be the impact of this reduction if this legislative proposal is approved by Congress?

Answer: Specific impacts of the proposed funding change are unknown, since States will exercise the flexibility to target Federal funds to their own systems of child nutrition services, including administrative expenses. This targeting possibility will allow each State to bring significant resources to its highest program priorities.

Question: Do you have any indication whether or not the States or local governments will assume the additional costs of these programs?

Answer: Because States will be choosing to fund those program areas that are most important to their child nutrition strategies, we do not know what choices States will make in funding programs of varying priority to them. We do expect that the increased administrative efficiency resulting from this flexibility will help to make the combination of Federal and State resources more effective in supporting their programs.

NUTRITION EDUCATION AND TRAINING PROGRAM (NET)

Question: What is your justification for eliminating the Nutrition Education and Training Program?

Answer: The Nutrition Education and Training Program (NET) was originally provided as seed money for the States to begin or augment existing nutrition education programs. Though it has created the basis for a successful program, the States must now take over funding of this program along with other education programs and decide appropriate funding levels.

Question: Do you believe the schools will continue their nutrition curricula and aids without Federal support?

Answer: Of 2,956 projects reviewed in a 1979 survey, 86 percent of related expenditures were for grants for local projects. On the basis of the effectiveness of these and subsequent projects, both local and State education agencies can make decisions about funding of nutrition curricula and aids. The establishment of educational curricula is traditionally locally determined. The NET Program did facilitate the development and use of nutrition education curricula. What NET grants have done is not undone by the termination of the grant program, but rather places decisions regarding school curricula where they belong--at the local level.

GENERAL NUTRITION ASSISTANCE GRANT PROGRAM

Question: Please provide for the record a listing of all USDA programs to be included in the grant program, together with the proposed amount for each, and the associated savings proposed for each program.

Answer: Under this legislative proposal the current categorical grants for the School Breakfast and Child Care Food Programs will be eliminated and the General Nutrition Assistance grant will be created.

Net savings are estimated at $258.0 million. This consists of $382.1 million in reduced costs due to the elimination of the School Breakfast Program, $327.4 for the Child Care Food Program, $24.9 million for commodities or cash in lieu of commodities for the Child Care Food Program and $11.6 million for related State Administrative Expenses. Partially offsetting the cost reductions in $488.0 million, the level proposed for the General Nutrition Assistance grants.

Question: How will the funds provided in the grant program be distributed to the States? Is there some type of formula that will be used to determine how much each State will receive?

Answer: The Administration's legislative proposal for General Nutrition Assistance has not been cleared. Therefore, we cannot describe the proposed funding formula for the distribution of the grants to the States.

CHILD CARE FOOD PROGRAM

Question: For several years, USDA has helped defray the overhead costs of day care home operators who qualify for child care food aid. Facing a $1.8 million cut in the $18 million program, USDA is paring back this aid. What will be the impact of this?

Answer: These administrative funds are used by sponsoring organizations to defray the costs they incur in administering the Child Care Food Program for individual day care home operators and are apart from the per meal reimbursements that go to the day care operators to provide meals for participating children.

Public Law 97-35 mandated an adjustment in the maximum allowable levels for administrative expense payments to Child Care Food Program sponsoring organizations of day care homes to achieve a 10-percent reduction in the total amount of reimbursement provided to sponsoring organizations for administrative expenses. The Department has determined that in order to comply with this mandate it will be necessary to reduce actual expenditures by approximately $1.8 million. The statute further directed the Department to take into consideration the economy of scale factors to distinguish institutions which sponsor a greater number of homes from those that sponsor a lesser number. An interim rule, which adjusted the maximum allowable levels for administrative payments to day care home sponsoring organizations, was published in the Federal Register on January 26, 1982, with a 60-day comment period. The Department will publish a final rule after the comment period is over and comments are analyzed. Because the per meal reimbursement for food service is separate from the sponsor administrative funds, the $1.8 million reduction in sponsor administrative costs should have no direct effect on the resources available to family day care home operators for food service.

QUESTIONS SUBMITTED BY SENATOR MATTINGLY

SCHOOL LUNCH FUNDING

Question: Can you assure us that the budget levels requested will adequately provide at least one nutritious meal for children from families which are truly needy? It seems to me that school is the one place where we can help make certain that such a meal is provided under controlled conditions to ensure that the intended assistance is actually adequate and is actually going to benefit those who are intended to benefit.

Answer: The largest of the child nutrition programs, the National School Lunch Program, is being maintained without any reduction in funding. The continuation of this program makes a nourishing free or reduced price lunch available to every public and needy non-profit private school student in the United States. While some of these schools do not choose to participate in the program, it has been and remains available to all such schools.

Question: Is it possible to supplement the School Lunch Program with donations of additional commodities from the Commodity Credit Corporation? It would appear that there are many times ample over-supplies of nutritious foods which the Government has under loan, and which the Government will lose money on anyway.

Answer: There are no Commodity Credit Corporation price support programs for processed products other than dairy products. Also, part of the inventory value is represented by commodities that are not foods at all, such as cotton.

Many of the "food" commodities that are in Commodity Credit Corporation inventories from time to time, such as wheat, corn, oats, and rye, are stored in raw, bulk form and would require considerable processing before they could be used for food. About the only food commodities acquired by Commodity Credit Corporation that can be put to immediate use without processing are dairy products and dry edible beans. There are no beans under support at this time. Even these foods are generally in bulk or packaged in large commercial-size containers not suitable for distribution unless repackaged.

ADMINISTRATIVE COST REDUCTIONS

Question: Again I will emphasize my desire to see the School Lunch Program operate in the most efficient manner possible in order to help children from needy families. In examining the entire USDA requested budget, and current procedures for administering the Lunch Program, where in your opinion could we shift additional funding or make administrative cost reductions in order to provide the most balanced, nutritious meals possible through school lunches?

Answer: A number of measures in this regard are already in operation or have been proposed. A recently proposed regulation would allow the "offer versus serve" meal pattern at all grade levels in order to reduce plate waste, but with attention also given to encouraging children to consume well-balanced meals. As a result of the 1981 Reconciliation Act, we are also planning to publish a regulation that will eliminate the requirement for cost based accounting that has been considered burdensome by local school districts. Recent informal surveys also indicate that school food authorities are streamlining their operations in a number of ways to retain or improve economies of scale so that they may continue to operate effective programs even in the face of rising costs. Our proposal for the General Nutrition Assistance Grant would also permit individual State discretion in targeting additional Federal funds to the School Lunch Program. We are continuing to seek ways to lessen the administrative burden of the programs, and welcome any suggestions you have to lower administrative costs.

ELIGIBLE FOODS

Question: I continue to hear from many persons in my State who are in the retail grocery business. They repeatedly point out from their personal experience that much of the money intended to help provide basic nutritional needs for lower income families is squandered because of the way the program is managed ... or perhaps I should say in the way the program is not managed. They have sent me reams of letters and hundreds of copies of cash register receipts which indicate that coupons are used to purchase soft drinks, candy and "junk food" rather than nutritious necessities. Cash change is given in many instances on small purchases and the change is used to play video games or to buy beer, etc. My question is, what is the Department doing, or what do you plan to do, to tighten up this situation and make more certain that these funds are actually being used to help provide food--not candy or beer or video game money--to those who need assistance?

Answer: The types of items that may be purchased using food coupons are restricted by the law and program regulations to "food or food products for home consumption." The rules of the program do not designate any specific types of food items to be purchased solely for reasons of price or nutritional value. Proposals to specify the allowable foods have been debated in Congress, but rejected due to the administrative difficulties that would be involved. The brunt of such difficulties would be borne by retail food stores.

The Department does not plan to recommend any changes in the Act with regard to eligible food. The current distinction between eligible food and nonfood items is relatively easy for food stores to enforce. Adding a list of ineligible foods, based on their nutritional value, would produce an eligible foods list that could prove very difficult and costly to administer. In addition, we think that one strength of the Food Stamp Program is that it permits recipients to retain the ability to shop freely in the market place for eligible food items. We do not believe that it would be proper to place additional restrictions on this freedom.

Program participants are provided nutrition education information to make them aware of the types and varieties of foods that they should purchase to help provide their families with a nutritionally adequate diet. Participants are encouraged to plan their shopping carefully so as to use their coupon allotments to optimum advantage.

National food consumption studies show that low-income households in general tend to spend a larger percentage of their food dollars on items of high nutritive value than do other households.

The Food Stamp Act of 1977 permits program recipients to receive cash change up to 99 cents and place no restriction on the use of the cash returned as change. This provision in the Act was implemented by regulations which took effect in January 1979. The regulations state that a retailer may not engage in a series of food stamp transactions to provide the same food stamp customer an amount of cash change greater than the maximum 99 cents cash allowed per transaction. This rule prohibits the flagrant abuse of the cash change procedure and provides retailers with grounds to refuse obvious attempts to abuse cash change.

SCHOOL LUNCH PROGRAM ABUSE

Question: We have heard much regarding the outright fraud and abuse in the School Lunch Program--counterfeiting coupons, improper selling of coupons by recipients for cash, false statements in applications for the program, to mention just a few categories. Can you tell us what the Department has done in the last year to help correct these abuses, and what plans, if any, you have for the future.

Answer: The Omnibus Budget Reconciliation Act of 1981, Public Law 97-35, enacted August 13, 1981, contained several provisions addressing the abuse of free and reduced price lunch benefits. To discourage falsification of free and reduced price meal applications, the applications sent to the parents contain only the reduced price meal eligibility scale. Also, data contained in an application may be verified, the social security numbers of all adult household members are required for the receipt of free or reduced price meals. Also, appropriate documentation of household income, or documentation that the household participates in the Food Stamp Program may be required for the receipt of free and reduced price meals. Further requirements to ensure accuracy of income and family size information will be proposed shortly and will be implemented for next school year.

To protect needy children from overt identification, many schools have instituted ticket systems that separate the exchange of money from the meal service. However, in some instances, children are abusing the ticket system by selling their free or reduced price meal tickets, or distributing counterfeit tickets. We are currently developing policy to address this problem and hope to have it implemented before the start of the next school year.

QUESTIONS SUBMITTED BY SENATOR EAGLETON

THRIFTY FOOD PLAN UPDATE

Question: Your statement indicates that the last update of the Thrifty Food Plan to reflect the impact of inflation was carried out in January 1981. That adjustment was based on food prices that existed on what date?

Answer: The Thrifty Food Plan amounts were last adjusted on January 1, 1981. That adjustment reflected changes in food prices over the period October 1, 1979, to September 30, 1980 and reflected the cost of food in September 1980. As prescribed by the 1981 Farm Act, the next adjustment is scheduled for October 1, 1982 reflecting cost of food in June 1982.

Question: There are some proposals being considered which would eliminate cost-of-living adjustments for entitlement programs. What would be the impact of eliminating the October 1, 1982 food stamp update and would the Administration support such a proposal?

Answer: In the absence of any other program change, eliminating the cost-of-living adjustment to the Thrifty Food Plan would save $1.5 billion in Fiscal Year 1983.

As the Secretary and Assistant Secretary have said in previous testimony, the Administration is willing to explore a wide range of alternative cost-saving proposals to meet our budget goals.

Question: If the October 1, 1982 update were postponed a year and assuming food prices increased at the rate they are currently expected to increase over the next year, how far behind actual food price inflation would the Thrifty Food Plan be when October 1, 1983 arrived?

Answer: If the Thrifty Food Plan is maintained at its current value of $233 for a family of four until October 1, 1983, it would be approximately 15 percent less than the projected value of the plan at the next adjustment.

CURTAILING FOOD STAMP COSTS

Question: Please explain why the Administration believes it is justified that one program, Food Stamps, should be subjected to such a disproportionately large share of budget cuts, $3.7 billion, in two years.

Answer: The Federal Food Stamp Program is endemic of the growth of the Federal budget over the last decade. Starting as a small pilot project to replace the Food Distribution Program in the late 1960's, the program has grown nationwide to an estimated $11.6 billion in the current fiscal year. Even after correcting for inflation, the program has grown at a real rate of nearly 17 percent annually. Participation in the program has also expanded dramatically. The program has also been associated with some problems of fraud, waste and abuse.

The basic goal of the Administration's 1982 and 1983 budget proposals, therefore, has been to slow the rate of program growth, simplify program administration, and to target program benefits. An important underpinning of this goal is the reduction of the potential for waste, fraud and error. Over $800 million savings from the 1981 Reconciliation and Farm Bills passed are expected from provisions which reduce fraud, waste, abuse and error in the program. Among these provisions are prorating benefits in the month of application, improved recovery of overpayments, computer matching, and increased penalties for fraud.

In the Fiscal Year 1983 budget proposals, more than 20 percent of total savings come from the elimination of benefits paid improperly to ineligible households and a reduction in benefits overissued to eligible households. These reductions will not affect the legitimate entitlement of any participant. Another $160 million in savings come from changes in administrative procedures which also do not affect benefits.

Other cost saving proposals are directed in a progressive manner so that those with smaller incomes lose a smaller percentage of total benefits than those with larger incomes. A majority of households with incomes exceeding the poverty line will become ineligible for program benefits and an additional 29 percent in this income bracket will lose more than $20 a month in benefits. On the other hand, almost two-thirds of the poorest households--those with incomes less than one-half of poverty--will be unaffected by the major proposals. In view of the types of savings and the need for curbing program growth, we do not believe the reduction in program budget is disproportionate.

ERROR RATE LIABILITY

Question: You indicate that the budget assumes no funding for error rates in excess of 3 percent. Please explain in detail how you intend to carry this out?

Answer: The current budget proposal for food stamp benefits for Fiscal Year 1983 assumes that the States will have an annual average payment error rate at or below 3 percent. Should a State's error rate be above this level, the State will be liable for the dollar amount of the difference between their error rate and the 3 percent goal.

Question: Is such a plan being proposed for any other Federal programs? If so, which ones?

Answer: Similar legislation is being proposed for the AFDC and Medicaid Programs.

ERROR RATE SANCTION SYSTEM

Question: What are the current authorities which allow you to take actions against States to reduce error rates? What do these authorities provide? Which ones have and have not been implemented?

Answer: In 1980, Congress in Public Law 96-249 authorized the establishment of an error rate sanction system. This error rate sanction system was designed to encourage States to reduce their error rates by requiring them to meet certain prescribed standards, on a semi-annual basis, or face fiscal sanctions. As detailed in regulations published January 23, 1981, this system bases its determinations on error rates established by the quality control system. All authorities authorized by this system have been implemented through regulation.

Question: How many times has the current Administration used the authorities available to it to force States to reduce error rates? Please provide specifics on all incidences and actions taken?

Answer: The October 1980 - March 1981 reporting period was the first six-month period in which the error rate sanction system regulations were implemented. As a result of their implementation, 14 States were notified on January 4, 1982, that they were liable for repayment of a portion of their food stamp issuance if they did not implement a plan to lower error rates by April 1, 1982. The total sanction against these States was $17 million.

Question: What has been the policy as to the error rate threshold at which administrative action would be taken against any State?

Answer: As established in the January 23, 1981 regulations, each State has a specific payment error rate goal which it must meet in order to avoid liability for fiscal sanctions. During each six-month period, every State's payment error rate is evaluated to determine whether the specific payment error rate has been met. If a State's payment error rate is equal to or less than its goal, the State will have no liability for its payment error rate during this period. However, if a State's payment error rate exceeds its goal for the six-month period, the State will be liable for that percentage of their payment error rate which exceeds their goal. It is only at this point that administrative action is taken against a State for their payment error rate.

COMBINED WELFARE ADMINISTRATION GRANT

Question: What Department will administer the new Combined Welfare Administration Grant program?

Answer: The Department of Health and Human Services (HHS) would administer the Combined Welfare Administration grant under the Administration's proposal. There are two reasons for this. First, the greater share of the administrative costs which will be funded from the combined grant would be associated with HHS' Aid to Families with Dependent Children and Medicaid Programs. Second, in all but a few States, HHS has been the cognizant agency overseeing all Federal grant programs for some time because HHS' programs provide more Federal dollars to those States than do the programs of any other department. These State agencies, then, are already accustomed to dealing with HHS on overall financial management issues.

Question: Was not your greatest "club" against States with high food stamp error rates your ability to withhold State administrative expenses? Won't the new grant program remove this from your control and decrease your ability to tell States how to administer the Food Stamp Program?

Answer: Withholding State administrative expenses is not the most potent method we have available to induce States to lower their food stamp error rates. Even more effective is the error rate sanction system now in place. This together with our 1983 proposal to hold States strictly liable for all errors in excess of three percent will provide an even more powerful incentive to the States to reduce their error rates.

Question: With the States receiving less money to administer the Food Stamp Program, won't the chances for application processing errors increase? If not, why not?

Answer: The amount the Administration has requested for Fiscal Year 1983 for the administration grant for AFDC/Medicaid/food stamps is only approximately 5 percent less than the total amount of funding the Federal Government will provide for administering the three programs this year. Also, States will achieve savings from the new grant approach itself. Less financial reporting will be necessary, the cost allocation process will be simplified and States will be able to accomplish other economies through consolidating offices and personnel.

We do not believe that the incidence of errors will increase for two reasons. First, the Administration is proposing that States be financially liable for the value of errors over 3 percent. This liability will be a great incentive for States to reduce error rates. Second, there have been and will continue to be statutory and regulatory initiatives to provide States with effective tools for improving program integrity and control and reducing errors. A few examples of recent changes are requirements for photo-identification; social security numbers; and computer matching of income and benefit data available from other programs, such as unemployment compensation or social security.

WORK REGISTRATION/JOB SEARCH

Question: What is your estimate of the payback in savings to the Food Stamp Program associated with individuals finding jobs as the result of current work registration and job search activity?

Answer: FNS is currently demonstrating and evaluating the cost-effectiveness of several models of work registration and job search activity. When complete, the evaluation will provide a better basis for estimating the savings that are due to Agency-directed work registration and job search activity. Currently available information indicates that in Fiscal Year 1981 the Department of Labor reports 193,842 placements as the result of State employment service agency activity. Information on the effects of these placements on food stamp benefits is not currently available.

IMPACT OF PROPOSED CHANGES

Question: Please provide a State-by-State estimate of the impact of the proposed food stamp authorization changes by household type on all households, the elderly and wage earners.

Answer: The data base used to estimate these changes in the Food Stamp Program is not large enough to permit State-by-State estimates.

The table which follows shows the impact of the proposed Food Stamp Program changes by the nine Census regions for the requested household types. To the extent that a State caseload and other characteristics are similar to the other States in its Census region, the regional effects will be a good approximation of what can be expected in a State.

EFFECTS OF PROPOSED FOOD STAMP PROGRAM CHANGES BY REGIONS
(in thousands)

	TOTAL	NEW ENGLAND	MIDDLE ATLANTIC	SOUTH ATLANTIC	EAST NORTH CENTRAL	WEST NORTH CENTRAL	EAST SOUTH CENTRAL	WEST SOUTH CENTRAL	MOUNTAIN	PACIFIC
I. Households Made Ineligible	866(12%)	62(18%)	221(17%)	102(8%)	134(12%)	65(12%)	73(10%)	106(11%)	46(15%)	61(7%)
- with aged members	538(23%)	47(46%)	134(35%)	58(14%)	86(27%)	35(21%)	50(15%)	78(20%)	27(29%)	24(21%)
- with earners	228(12%)	5(11%)	32(15%)	31(8%)	41(16%)	21(14%)	24(11%)	34(12%)	14(14%)	24(9%)
II. Households Losing $2 or More in Benefits	4,597(62%)	228(65%)	814(62%)	836(65%)	756(65%)	301(57%)	448(61%)	585(61%)	158(53%)	471(56%)
- with aged members	1,332(58%)	36(36%)	144(38%)	309(75%)	173(54%)	98(58%)	223(70%)	257(65%)	49(52%)	43(37%)
- with earners	1,379(71%)	40(52%)	151(70%)	297(76%)	180(69%)	96(64%)	161(73%)	221(78%)	70(69%)	163(63%)

NOTE: Includes elimination of earned income deduction, 35 percent benefit reduction rate, and no minimum benefit. Rows may not sum to total because of rounding.

THE STATES INCLUDED IN EACH CENSUS REGION FOLLOW.

New England

Maine, New Hampshire, Vermont, Massachusetts, Rhode Island, Connecticut

Middle Atlantic

New York, New Jersey, Pennsylvania

South Atlantic

Delaware, Maryland, District of Columbia, Virginia, West Virginia, North Carolina, South Carolina, Georgia, Florida

East North Central

Ohio, Indiana, Illinois, Michigan, Wisconsin

West North Central

Minnesota, Iowa, Missouri, North Dakota, South Dakota, Nebraska, Kansas

East South Central

Kentucky, Tennessee, Alabama, Mississippi

West South Central

Arkansas, Louisiana, Oklahoma, Texas

Mountain

Montana, Idaho, Wyoming, Colorado, New Mexico, Arizona, Utah, Nevada

Pacific

Washington, Oregon, California, Alaska, Hawaii

Question: Your statement indicates "...the overall participation in the program has remained stable, indicating that the less needy have been removed from the program." That being the case, who will be removed by the legislative changes now being proposed?

Answer: We have estimated that the proposed legislative changes will exclude 12 percent of the current food stamp households. An additional four percent will be eligible for relatively small benefits but choose not to participate.

The majority of the households excluded by the proposed legislation are those whose incomes are high enough that, using the actual benefit computation, they are eligible for a zero or negative benefit. With the existing minimum benefit provision, these households receive $10; under this proposal they become ineligible. Households with elderly are disproportionately represented among these minimum benefit households since they are generally smaller than average and have higher incomes than non-elderly households of equal size.

A second group of households becoming ineligible are those whose incomes are high enough that the elimination of the earnings deduction causes their benefit amount to drop below zero. Finally, there is a small group of households whose incomes are high enough that the change in the benefit reduction rate causes their benefit amount to drop below zero.

FOOD COUPON ACTIVITY

Question: The explanatory notes indicate that even with a substantial decrease in food coupon activity in Fiscal Year 1983, costs of printing, shipping and processing redeemed coupons will increase dramatically. Please provide some further explanation as to why this is occurring.

Answer: The increase is due to the impact of inflation on the costs of these activities. In Fiscal Year 1983 we estimate costs at $40.2 million for printing, $4.1 million for shipping and $11.2 million for processing redeemed coupons. This totals $55.5 million, an increase of $3.6 million over our current estimate of $51.9 million for Fiscal Year 1982.

Question: Have you consulted with the Secret Service in the past two years over means of reducing fraud and abuse in the Food Stamp Program and avoiding food stamp counterfeiting?

Answer: Yes, we have on several occasions initiated discussions with the Secret Service regarding deterrents to abuse and counterfeiting. Within the past two years a small task force was formed to study possible counterfeiting deterrents. The task force, headed by FNS, included representatives from Secret Service and Bureau of Engraving and Printing.

Question: What recommendations has the Secret Service made to FNS and what, if any, of these has FNS implemented?

Answer: In the past year, FNS consulted with Secret Service and one of its contractors to develop and use a latent image and microline on food coupons. The latent image is a design that can only be seen by viewing the food coupon at an angle. It will be used for the $10 food coupon. The microline is a line of very small printing not visible to the unaided eye. The microline will appear on the $1, $5 and $10 coupon food coupons. The Secret Service endorsed these initiatives to deter counterfeiting.

RESEARCH, EVALUATION AND DEMONSTRATION PROJECTS

Question: In FY 1981, $11.2 million was spent on research and evaluation of the Food Stamp Program. Please provide a list and brief summary of what projects were funded by these projects?

Answer: During Fiscal Year 1981, FNS obligated Food Stamp Section 17 funds for the following research, evaluation and demonstration projects.

-- Automated quality control system -- design implementation.
-- Automated quality control system -- video display terminals.
-- Demonstration and evaluation of the food stamp workfare demonstration projects.
-- Evaluation of cashing out food stamps for elderly and SSI recipients.
-- Demonstration and evaluation of the expanded food and nutrition education project.
-- Computerized system for converting food usage and food consumption data into measures of demand for farm commodities.
-- Characteristics of food stamp households.
-- Error reduction through identification and action on error prone cases (grant initiation projects involving States of New Hampshire, Massachusetts, North Carolina, Pennsylvania, New Mexico).
-- Improved management through use of extended certification periods, expanded verification, and monthly reporting (grant initiation project involving State of Texas).
-- Identification of cost-effective methods of wage and income verification through matching.
-- Demonstration and evaluation of monthly reporting and restrospective accounting for a public assistance caseload in Illinois.
-- Assessment of food stamp issuance systems.
-- Basic economic research by the Economic Research Service, USDA.
-- Demonstration and evaluation of food stamp work registration and job search.
-- Survey of Thrifty Food Plan costs for Virgin Islands and Guam.
-- Estimation of eligibility and participation under alternate Food Stamp Program designs.

Question: What projects have been funded with the FY '82 research and evaluation funds and what is proposed for the FY '83 funds?

Answer: Most of the projects planned for Fiscal Year 1982 have not yet been funded. Thus far funds have been obligated for:

- Survey of the Thrifty Food Plan in Guam and the Virgin Islands,
- Demonstration and evaluation of monthly reporting and restrospective accounting for a public assistance caseload in Illinois,
- State Food Stamp Program simulation model.

FNS also plans to fund Congressionally mandated demonstrations and evaluations of projects that will cash out food stamps or simplify food stamp eligibility determination for specified groups of recipients. A second focus of research and evaluation activity during Fiscal Year 1982 is the control of waste, fraud and abuse. Additional projects are under consideration.

Plans for research and evaluation projects for Fiscal Year 1983 are not yet complete. The research focus, however, will be directed toward the identification and control of waste, fraud and abuse.

NUTRITIONAL IMPACT ON FOOD STAMP PROGRAM

Question: In the past three years, have any projects been funded aimed at studying the nutritional impact of the Food Stamp Program on recipients? If so, please list these projects and a summary of their findings.

Answer: FNS has several projects underway which will provide information on the nutritional impact of the Food Stamp Program. The evaluation of the SSI/Elderly Cashout Demonstration, now undergoing Agency review, measures the nutritional impact of cash and coupon benefits for this group of recipients. The Agency is currently reviewing an in-house analysis of the 1977 Puerto Rico Food Consumption Survey that contains information on the effects of the Food Stamp Program in Puerto Rico. In-house analyses of the Nationwide Food Consumption Surveys will provide additional information.

In gauging the nutritional impacts of the Food Stamp Program, FNS is able to use the research of other agencies as well as its own. Relevant analyses are conducted by the Human Nutrition Information Service (HNIS) using Nationwide Food Consumption Survey (NFCS) data. The NFCS includes data on income and Food Stamp Program participation. A special low-income survey was conducted in 1977-78. Findings allow comparisons between Food Stamp Program participants and nonparticipants in relation to household food expenditures, the nutrient value per dollar spent on food, the nutrient density of the diets, and food consumption patterns. Following the elimination of the purchase requirement (EPR), an additional low income food consumption survey was conducted. When complete results from this survey are available similar analyses can be done. Important comparisons can then be made of the dietary practices of food stamp participants pre and post EPR.

Available HNIS research indicates that (1) food stamp recipients have a higher nutrient intake than otherwise similar nonrecipients and (2) food stamp recipients purchase more nutrients per food dollar than do other low income persons.

Question: Does the Department believe that an individual who receives energy assistance payments has more funds to purchase food or has more money with which to pay his utility bills?

Answer: We believe that a household's receipt of energy assistance payments increases the total income available to that household for meeting all of its expenses, including the purchase of food, and that these payments release other household income to be used for purposes such as the purchase of food. We further believe that all income should be counted in determining the household's eligibility for the Food Stamp Program and its benefit level. The Administration's proposal to include this currently-excluded income is necessary to achieve equity with other households, both on and off the program, who do not receive energy assistance payments.

FOOD PURCHASING HABITS

Question: A common compliant you hear about the Food Stamp Program is that recipients purchase many luxury food items as well as expensive cuts of meats. Has the Department done any studies of food purchasing habits of recipients? If so, how do they compare with the average non-recipient household?

Answer: A study of the food purchasing habits of food stamp recipients entitled "Do Food Stamp and Other Customers Buy the Same Products in Supermarkets?" was published in March 1979. Food purchases of food stamp customers and all other customers were compared using cash register receipts. The proportion that various kinds of foods represented of the total food purchased were tabulated and compared for the two groups. In general, food stamp users and non-users purchased similar types of food. Food stamp customers spent 2.5 percent of their total expenditure for ground beef; other customers spent 1.9 percent. Food stamp customers spent a higher percentage for pork chops and pork roasts, ham, sausage--but not bacon--than other customers. Food stamp customers also spent a higher percentage of their food bills on white potatoes and dried beans. In the ready-to-eat snack food categories (for example, soft drinks, crackers, chips, and candy), food stamp recipients spent a smaller percentage. Their purchase of fruit drinks, ades, and punches was, however, noticeably higher than non-food stamp customers, and their consumption of potato chips marginally higher (by .1 percent). Food stamp customers spent less than other customers for the milk, cheese, ice cream, baby formula food group.

Question: Has the Department completed an analysis as to where the largest portion of dollar losses occur due to fraud and abuse, be it the issuance of coupons, counterfeiting, food outlets, etc.? What does such an analysis show?

Answer: A Management Information Task Force on fraud, waste, error, and abuse was established by Administrator Hoagland of the Food and Nutrition Service in June of last year. Its report, submitted in January 1982, found that most program losses are associated with the certification of food stamp households. Quality control data indicate that the magnitude of error payments of all kinds made during Fiscal Year 1980 approximated $792 million or 9.1 percent of total coupon issuance. One indicator of the portion of error payments representing recipient fraud is the volume of fraud claims established against households. During the same period (Fiscal Year 1980), claims against households totalled $38.9 million of which some $6.3 million or 16 percent of this claim amount was attributed to recipient fraud.

Dollar losses due to fraud in issuance systems are difficult to pin down. The most common means of issuing benefits to households is the authorization to participate (ATP) card received in the mail for coupons. In some cases, households may receive replacements for ATP's which are reported lost in the mail. If a household reports non-receipt, receives a replacement, and then transacts both, the duplicate transaction should be picked up during reconciliation.

A recent analysis of data reported by State agencies for July through September 1981, on the results of reconciliation indicated that duplicate ATP transactions for that period totalled $3 million. This represents approximately .15 percent of total issuance. State agency liability for the same period totalled $625,000 or .03 percent of total ATP issuance. Again, however, only a portion of these losses are the result of fraud. Total ATP issuance for the quarter was $2 billion.

A very general index to the types and incidence of food stamp fraud and abuse which may occur may be found in the results of investigative efforts performed by the Department's Office of the Inspector General (OIG). During Fiscal Year 1980, this office initiated 684 investigations of suspected food stamp violations resulting in the recovery of $1,460,000. Of this dollar total, $315,000 resulted from investigations of retailers/wholesalers; $14,000 from investigations of non-Federal employees; $429,000 from investigations of robberies, burglaries and thefts; $360,000 from investigations of unauthorized participation; and $219,000 from investigations of recipient fraud. While these data do not establish definitive ratios among the types of fraud and abuse which may occur in the program, they do provide a general overview of those serious cases prompting OIG investigation.

COMMODITIES IN LIEU OF FOOD STAMPS

Question: What are the current eligibility standards for the Commodities in Lieu of Food Stamp Program and will the proposed changes in the Food Stamp law impact this program's eligibility standards?

Answer: Under current regulations governing the Food Distribution Program on Indian reservations, the income eligibility standards for the program are the Food Stamp Program's net monthly eligibility standards, increased by a standard deduction. For a family of four, that limit would be $790 per month. Under the provisions of the Omnibus Budget Reconciliation Act of 1981 (P.L. 97-35) the gross income eligibility limits for the Food Stamp Program are 130 percent of OMB's nonfarm poverty guidelines. The Food Distribution Program on Indian reservations plans to adopt the

Food Stamp Program's gross income eligibility standards. This action will provide consistency between the two programs. Further, it will aid in the simplification of certifying households for either program, since households may switch from the Food Distribution Program to the Food Stamp Program and vice versa. Proposed regulations will be issued shortly to reflect this change.

OFFER VERSUS SERVE

Question: Recently, the Food and Nutrition Service published for comment regulations allowing the "offer vs. serve" menu option to be extended to elementary schools. Since this option allows students to refuse up to two of the five meal components of a school lunch, what is the impact on the nutrition education value of the Lunch Program?

Answer: State and local school food service officials have expressed concerns that allowing younger school children to decline two lunch items might lessen the nutrition education aspect of the School Lunch Program. They believe that younger children need more guidance as to the value of consuming different types of foods.

In response to these concerns, the "offer versus serve" proposal gives school food authorities some flexibility in determining how "offer versus serve" will operate in grades below the senior high level. School food authorities would be permitted to determine whether students may decline up to two items or only one item. When a student has declined a full portion of an item, schools at all grade levels may offer the student a smaller "taste" portion of the item.

The Department continues to require parent and student involvement in the school food service, and particularly, the menu planning process, to insure that menus reflect student preferences. The Department believes that a cooperative effort of parents, students, and school officials will result in menus which reflect student preferences to a degree that most students will choose and consume all five items of the lunch.

Also, a guidance package is being developed which deals with all aspects of "offer versus serve" including menu planning, production planning, merchandising and steps to implement "offer versus serve" in elementary schools.

With all of these efforts to encourage students to consume the entire lunch, it is the Department's intention that the net result of "offer versus serve" should be a positive nutrition education experience.

Question: The Administration proposes to discontinue the Nutrition Education and Training Grant Program. As dollar assistance for feeding programs is cut back, is it not even more critical that people be taught the importance of good nutrition and how best to spend what limited income they have on food?

Answer: With reduced funding available the priorities for this Agency are the Child Nutrition Programs which provide food for children. It is our belief that the responsibility for nutrition education curriculum and training of teachers and students should remain within the State rather than be dictated by Federal mandate. State and local agencies are in the best position to evaluate and meet the educational and training needs of their students and educators. There is little reason why this process has to be funded, regulated, reviewed, controlled or otherwise encumbered by the Federal government.

MEAL SPECIFICATIONS

Question: With the "offer vs. serve" option being extended to elementary schools, it becomes even more important that every meal component meet at least the minimum USDA specifications in order to insure that school children are receiving a nutritionally balanced meal. Does the Department intend to make any changes in its specifications which would weaken their nutritional requirements and do you intend to increase or at least maintain current oversight activities to assure schools are meeting the specifications?

Answer: The Department does not intend to make any major changes in the specifications, or meal pattern requirements, for the School Lunch Program. We intend to retain the minimum amount of each of the required components of the lunch for various age groups as published in final regulations on May 16, 1980. These minimum lunch requirements are designed to provide a nutritious and well balanced lunch to each child. The nutrient content of the lunch, averaged over a period of time, should approximate one-third of the Recommended Dietary Allowances (RDA) for children of each age group.

The nutritional integrity of meals served under the National School Lunch Program is of primary importance. We intend to maintain current monitoring activities to assure that schools are meeting meal pattern requirements.

Question: Will the Department initiate any follow-up studies when these new regulations are put in place which will monitor their impact on the nutritional quality of the meals being consumed by elementary students?

Answer: The new "offer versus serve" option for elementary students does not alter the nutritional standards of the meals served to elementary school students, although a student may be served less than the total number of components in the Department's meal pattern. Those items that are not served are refused by the student because he or she would not eat the food even if it were served on the plate. Because the "offer versus serve" provision is intended to reduce food waste, at this time the Department has no plans to study its effect on the nutritional quality of the meals being consumed. We will rely on the routine nutritional monitoring of the meal pattern to insure that the nutritional goals of the program are satisfied.

STATE ADMINISTRATIVE EXPENSES

Question: The request for State Administrative Expenses is a net decrease primarily due to the elimination of programs and other legislative actions. If the Congress does not accept these proposals, what will be the required funding level for State Administrative Expenses and please provide the increase which would be associated with the rejection of each separate legislative proposal?

Answer: If Congress does not enact our proposed legislation for the Child Nutrition Programs, $47,736,000 will be required for State Administrative Expenses in Fiscal Year 1983. This is an increase of $12,325,000 over our budget request of $35,411,000. Approximately $678,000 of the difference is associated with the territorial block grant proposal and $11,647,000 is related to the creation of the General Nutrition Assistance grant program.

Question: What is the current status of the revised Summer Feeding Program regulations?

Answer: The Summer Food Service Program (SFSP) proposed rule to implement changes mandated by Public Law 97-35 was published in the Federal Register on December 11, 1981. This rule limited sponsor and geographic area eligibility for participation in the SFSP, and prohibited sites serving milk under the Special Milk Program from participating in the SFSP. The final rule to implement the above-mentioned changes was published in the Federal Register on February 16, 1982. Copies of the final rule were provided to administering agencies upon publication.

NEW CHILD NUTRITION GRANT PROGRAM

Question: The Administration is proposing to terminate the School Breakfast and Child Care Feeding Programs, create a new General Nutrition Assistance Grant Program and fund it at a level $246.4 million less than the previous two programs combined. To quote your statement, "We believe that there are efficiencies to be made from this process and that such a proposal could save $246.4 million in Fiscal Year 1983." First, when was the specific legislative package aimed at implementing these proposals developed? Was this prior to or after the budget figure for the new program was developed?

Answer: The concept for such a grant emerged during deliberations about the Administration's budget and legislative proposals for Fiscal Year 1983. The grant concept was one of several options discussed to achieve savings in the Child Nutrition Programs. The specific legislation to implement this concept was developed only after agreement was reached as to the specific items to be included in the President's budget.

Question: What are the specific "efficiencies" which will result from this proposal that will actually result in dollar savings?

Answer: Relieved of the complex and burdensome Federal regulations and reporting and monitoring requirements of the current performance based categorical programs such as Child Care and School Breakfast, the States will be enabled to streamline their operations and effect considerable savings. Moreover, the broad flexibility that distinguishes the new grant approach will give the States opportunities to create efficient programs that are specifically tailored to the needs of their communities and at the same time to eliminate overlapping and excessive benefits, thereby effecting additional cost savings.

Question: Will any individuals currently being served by the Breakfast or Child Care Programs not be served under the new program? What is your estimate as to how many will not be served?

Answer: The purpose of the grant is to allow the States to determine their needs and how their funds should be expended to provide maximum benefits in their States. There is the possibility that should a State choose not to fund a certain program, an individual currently participating in the School Breakfast or Child Care Programs will no longer be served. However, since program targeting is a decision of the State, we cannot estimate how many will be affected.

Question: Why were these two programs selected for the block grant?

Answer: The current School Breakfast and Child Care Food Programs are administratively cumbersome and over-regulated. Direct grants will reduce administrative burdens by eliminating detailed Federal regulations for the over 100,000 schools and institutions participating in the two programs.

Decisions about which children in which institutions should receive meal subsidies are better made at the State level. Should a State find that there is a need for such a program in their State, the grant will give them the option of funding such a program. Moreover, under the Administrations proposed legislation for the new grant program the States will have the discretion to fund any type of child feeding program that best suit their needs. For example, they could implement their own breakfast or child care food program; they could operate a summer program or fund nutrition education.

Question: In your opinion, is the current School Breakfast Program serving its intended purpose?

Answer: For those who participate the program is possibly meeting its objective. That, however, is not the issue. When faced with limited resources we had to make hard choices for budget reductions.

APPROPRIATIONS LANGUAGE

Question: Your statement indicates that the proposed appropriation language for the School Lunch Program "...would restore the authority of the Appropriations Committee to establish fixed appropriation levels for these programs." Is that not another way of saying you are proposing to end the entitlement status of these programs?

Answer: Given the fact that the School Lunch Program is no longer expanding and the reimbursement rates are adjusted only once a year, predicting funding requirements for a given year should be less difficult than it has been in the past. However, should unforeseen circumstances develop and the appropriation is insufficient to cover the program costs for the year, there would be three options open to us under the proposed language. A supplemental could be requested or the Secretary could exercise his authority under the appropriation language to reduce the reimbursement levels or we could continue to operate the programs at full reimbursement levels until the funds run out.

Question: Assuming we accept your proposed language, what would be the policy of the Administration should we come to the middle of Fiscal Year 1983 and find that the amount appropriated was insufficient to fully fund the current authorized level of program activity?

Answer: Should we find that the appropriation is insufficient, the Secretary would have three options: (1) to request supplemental funds; (2) to adjust reimbursement rates to keep spending below the appropriated level; or (3) to provide reimbursement only until funding is exhausted. The Secretary would choose the option which would best serve the need at that particular time and under that particular circumstance. He would have to balance the relative advantages of either maintaining the reimbursement levels or controlling the rate of Federal expenditures.

CHILD NUTRITION SUPPLEMENTALS

Question: In the last five fiscal years, excluding the current year, supplemental funding to fully fund the Child Nutrition Programs has been required for how many years?

Answer: Supplemental funding for the Child Nutrition Programs was required in Fiscal Years 1979, 1980 and 1981. In Fiscal Years 1977 and 1978, supplemental funding was not required.

Question: Is it not the case that when a supplemental is required for the Child Nutrition Programs, it is usually the result of higher than expected participation in the program and not the result of improper management?

Answer: Generally speaking, we would agree that the need for supplemental appropriations derives more from increased participation than from improper management. In this regard, given the fact that the school lunch programs are no longer expanding, we believe that it should be possible to develop a close approximation of the level of participation in a given year, judging from the participation in past years.

FISCAL DISCIPLINE

Question: Your statement indicates "the fiscal discipline envisioned in a provision such as this would provide an incentive to States to effectively implement the requirements for improved accountability in the Child Nutrition Programs enacted by Congress." What are the specific requirements you are referring to and when were they enacted into law?

Answer: Interim amendments affecting regulations for improved accountability for the National School Lunch Program and State Administrative Expense funds were effective January 1, 1981. The changes made by these interim amendments are known collectively as the Assessment, Improvement and Monitoring System (AIMS). The objectives of AIMS are: to assess current school lunch program management by State, to monitor effectively the use of Federal funds, and to protect the nutritional integrity of meals served under the program. Specifically, AIMS requires States to conduct periodic audits which would assure that: all applications for free and reduced price meals are validly approved or correctly denied; free and reduced price meals claimed for reimbursement are less than or equal to the number of currently enrolled children approved for free and reduced price meals; the system for counting and recording meal totals for meals claimed for reimbursement yields correct claims; and the total number of meals claimed for reimbursement is equal to or less than the average daily attendance.

Question: When did the Department issue regulations in final form allowing implementation of each of these requirements?

Answer: Regulations implementing the AIM System have not yet been issued in final form. We are expecting them to be issued in June. However, interim regulations allowing for implementation of the AIMS requirements were issued and were effective Jaunary 1, 1981.

Question: What indication do you have that "fiscal discipline" is required to encourage the States to implement current law?

Answer: There have been no specific incidences which lead us to believe that incentives are required to encouraged States to implement AIMS. However, we are suggesting that the appropriations provision will provide an additional incentive for States to effectively implement the system.

Question: The appropriation language you have proposed for the Child Nutrition Programs would give the Secretary of Agriculture the authority to adjust reimbursement rates under the School Lunch Program. Is this your intent?

Answer: As indicated earlier, it is our intent that the Secretary be allowed, when appropriations are insufficient, to adjust reimbursement rates; to ask for a supplemental appropriation; or to provide funding only until funds are exhausted.

Question: Under what specific circumstances would the Secretary use this authority and what policy options would he consider implementing?

Answer: The Secretary would be allowed to adjust reimbursement rates should program activity exceed appropriated funding levels.

Other options available in such a circumstance is to request a supplemental appropriation or to provide funding only until the available funds are exhausted.

NUTRITION STUDIES AND SURVEYS

Question: Please provide a list of those studies currently being funded through the Nutrition Studies and Surveys account, those completed or scheduled to be completed in Fiscal Year 1982, and those expected to be undertaken in Fiscal Year 1983.

Answer: Studies currently being funded through the Nutrition Studies and Surveys account that are completed or scheduled to be completed are described below by fiscal year:

FISCAL YEAR 1982

National Evaluation of the School Nutrition Programs (scheduled for completion). This study examined the impact of the School Lunch, Breakfast and Special Milk Programs on school children and their families and developed models of program participation to assist in forecasting future levels of school and student participation. The data were collected from a nationally representative sample of 7,000 school age students, their families, and from 1,300 school food administrators. The final report is scheduled for Summer 1982.

FISCAL YEAR 1983

Study of Alternatives to Commodity Donation (on-going). This study, mandated by P.L. 96-528, will assess the costs and effects of the current commodity donation program relative to commodity letter of credit and cash systems at ninety sites across the country.

Pilot Project on Income Verification (scheduled for completion). This study, mandated by P.L. 97-35, is assessing the effects of legislated and program changes on the application process for free and reduced price meals. The first year assessment is occurring in thirteen school districts. Preliminary findings reveal a ten percent reduction this year in the number of free meals served to children in the National School Lunch Program compared to participation rates at control schools. In Fiscal Year 1983 there are plans to test the effects and feasibility of several income verification procedures.

Computerized Commodity Conversion System (scheduled for completion). This project was initiated in response to Senate Resolution 90 to provide a methodology for estimating the agricultural impact of its feeding programs. The conversion system will, for its immediate application, be used to support the Study of Alternatives to Commodity Donation.

Further Analysis of Data from the National Evaluation of School Nutrition Programs (new study). The primary purpose of this effort is to conduct analyses of data collected but not fully analyzed or reported as part of the National Evaluation of School Nutrition Programs. The data were collected for analyses of participation and impact of the school feeding programs on a nationally representative sample of students, their families, and school food administrators. Topics for further analysis will include but not be limited to: the impact of school lunch and breakfast participation on classroom behaviors and the nutritional impact of selected commodities consumed by program participants. This study will also include further development work using participation forecasting models to estimate the ways in which program benefits are targeted to recipients' needs under various policy options.

HIGH TUITION SCHOOLS

Question: How many high tuition schools were eliminated from participation in the Child Nutrition Programs as a result of the Omnibus Budget Reconciliation Act of 1981?

Answer: Based on preliminary participation estimates for October 1981, we estimate that about 1,000 private schools were eliminated from the program because they charge over $1,500 in tuition.

Question: How many of these schools have been schools which serve the handicapped?

Answer: Information routinely collected by the State agencies for the Food and Nutrition Service does not include a designation of schools which serve handicapped populations.

PROGRAM EVALUATIONS

Question: The explanatory notes indicate that evaluations of the Child Care Food Program and the NET Program were underway in Fiscal Year 1981. Please provide a summary of the findings of each of these studies?

Answer: The Evaluation of the Child Care Food Program will be completed in May of this year. A summary of findings will be forwarded as soon as it is available.

The NET study evaluated the Nebraska and Georgia State-level programs. Nebraska was selected for study because it has a centralized approach to nutrition education that involves teachers, food service personnel, and children in the implementation of a curriculum that is the same in all participating schools. The Nebraska model is being adopted in seven other States.

The Georgia NET program was selected for study because it follows a "decentralized" model of nutrition education that contrasts with Nebraska's centralized model. The Georgia model is typical of the NET models implemented in many of the more populous States. Summaries of the findings will be forwarded when available.

SPECIAL MILK PROGRAM

Question: The notes indicate that over 85 percent of the half pints of milk served under this program go to non-needy individuals.

Approximately what is the average income level of the non-needy individuals to which you refer?

Answer: The Department only receives household income information from children that apply to receive free milk. The income eligibility limit for free milk is $10,990 per year for a family of four. From that information, we can assume that the non-needy participants in the Special Milk Program have household incomes that exceed $10,990. It is quite likely that their average income is well in excess of that level.

Question: Does the Special Milk Program currently serve kindergarten children who currently have no other feeding program available to them. If so, what portion of those served are in this age group?

Answer: In the vast majority of cases, kindergartens fall under our definition of schools eligible for school nutrition programs. These schools are allowed to participate in the School Lunch and/or Breakfast Programs, or Special Milk Program. Therefore, if the kindergarten children attend a school not participating in any other school nutrition program, they along with the rest of the students, can be served federally subsidized milk if their school chooses to participate in the program.

We do not collect data in such a way that participants can be separated by age or grade level.

WIC PROGRAM

Question: What is the "overlapping funding" you refer to in the WIC Program?

Answer: Many WIC sites are located in Maternal and Child Health (MCH) funded clinics and the WIC Program and certain MCH programs have some overlapping functions, regulations and personnel. Funds spent in duplicating efforts created by these events can be considered overlapping funding. Combining the Supplemental Food Programs with the MCH block grant will allow States to reduce duplicative or overlapping program functions and administrative requirements. It is anticipated, then, that the funds will be more efficiently spent.

Question: Please provide the Administration's legislative proposal authorizing the transfer of the WIC Program to DHHS.

Answer: The legislative proposal is being prepared by DHHS. USDA does not have the proposal available and, therefore, is unable to provide it to the Committee.

Question: How many individuals are currently being served by the WIC Program?

Answer: In January 1982, latest month reported, 2,053,523 individuals participated in the WIC Program.

WIC ELIGIBLES

Question: What are the current estimates of those who are going unserved at the current WIC funding level?

Answer: A calculation of total program eligibility is required in order to estimate the number of eligible individuals currently unserved by the WIC Program. WIC Program eligibility is determined by income and nutritional risk criteria. Within Federal guidelines, States may set their own income and nutritional risk criteria. Likewise, local WIC agencies may individually influence the eligibility criteria. Because of the resulting inter and intra State variation in eligibility determination, calculating the total number of potential eligibles is extremely complex. In addition, available information does not allow a very accurate method of calculating eligibility. Current census data on a State by State basis is not yet available. Any eligibility estimates are, therefore, only a rough approximation of the actual.

Current WIC Program legislation specifies broad nutritional risk criteria, but States may individually set the level at which risk is defined. Thus, the number of potential eligibles will be greater for States using liberal definitions of risk compared to those using more stringent definitions. Because States are not required to report the number of income eligibles who are screened out due to absence of nutritional risk, one cannot determine the influence of nutritional risk on the number of potential eligibles. However, surveys have shown that income eligibility is a reasonable proxy for the presence of nutritional risk. Therefore, only income eligibility will be used to determine the number of persons eligible for the WIC Program.

The maximum income at which an individual may be eligible for the WIC Program is set by P.L. 97-35, (August 13, 1981), to the 185 percent of the OMB's non farm income poverty guidelines. State-set income eligibility levels range from a low of 100 percent to the maximum of 185 percent. By roughly weighting States by size, it appears that the average income guideline for all States is slightly under 175 percent. Eligibility will be calculated using the income eligibility range of 175 to 185 percent in order to avoid an over-representation of the number of WIC eligibles. Using this range, it is estimated that, in any given month, the total WIC income eligible population in the United States is between 7.7 and 8.3 million. Under the current funding level, an average of 2.16 million participants can be served each month. Therefore, the number of unserved eligibles is between 5.5 and 6.1 million.

To properly interpret this range of unserved eligibles, average length of participation must be considered. Although the length of participation does not influence the number of women, infants and children eligible for the WIC Program, it does reduce the number of eligibles likely to apply for participation any month. For example, although pregnant women are eligible for the entire nine months of their pregnancy, few women are aware of the pregnancy until the second month. Average length of participation for pregnant women is approximately five months. Other factors reduce the mean length of participation for children and infants. It is fairly clear then that the number of individuals seeking WIC participation differs from the number who are eligible. On a yearly basis, this allows many more different individuals to be served than the 2.16 million monthly rate implies.

Question: Under the Administration's proposal for the WIC Program in Fiscal Year 1983, how many people will be able to receive supplemental food assistance?

Answer: In Fiscal Year 1983, the Administration has proposed including the WIC Program in the Department of Health and Human Services' MCH block grant. Under this combined block grant, each State will individually determine the mix of services to best meet the needs of its population. The number of individuals who will be able to receive supplemental food assistance depends entirely on the amount of funds each State allots to food assistance programs and the eligibility criteria used.

WIC EVALUATION PROJECTS

Question: Approximately $3 million was used in FY 81 on evaluation projects in the WIC Program. Please provide a brief description of the evaluation projects funded as well as their main findings?

Answer: Evaluation projects in the WIC Program funded in Fiscal Year 1981 include demonstration projects and program impact studies. Fifteen demonstration projects were awarded to State and Indian Agencies to improve food delivery and monitoring systems. While all projects are operative, final reports are not expected until the first quarter of Fiscal Year 1983, with the exception of the completed Oklahoma State Department of Health Project. The Oklahoma WIC State Agency upgraded their automated WIC reporting system into a fully operational statewide reporting system. Program staff will access information to make local audits, inquiries and corrections as well as to detect dual participation.

Four impact studies were started or received continuing funding in Fiscal Year 1981. Of these four studies, one has reported significant findings based on work conducted during the first year of the project. The Massachusetts Department of Public Health WIC Evaluation Project reports that pregnant women participating in the WIC Program in Massachusetts experience an increase in infant birthweight and gestational age when compared to a matched control group. The WIC effect is greatest in women who participate in WIC longest. Neonatal mortality is significantly reduced in the WIC group.

A summary of the major objectives of the four studies follows:

Evaluation of the Impacts of the WIC Program.

- Assess the effects of the WIC intervention on pregnant and breastfeeding women, including measures of pregnancy outcomes, infant feeding practices, nutritional status, dietary intake, and health care utilization.

- Assess the effects of the WIC intervention on infants and children, including measures of growth, nutritional status, dietary intake, and health care utilization.

- Describe the characteristics of WIC participants who benefit most from the WIC intervention.

-- Assess the unique contribution of WIC's three component services to program impact.

University of Oklahoma Medical Center Study
-- To test the feasibility of identifying women at mid-pregnancy who are at high risk for having too small or too large babies.

-- To assess the effects of WIC on these high risk pregnant women.

-- To test whether nutrition intervention on women at risk of carrying small babies would result in a greater increase in mean birth weight.

Massachusetts Department of Public Health WIC Evaluation Project
-- The purpose of this study is to evaluate the association between maternal participation in the WIC Program and the outcomes of pregnancy. Specifically: Does the WIC Program reach its high risk target population? Is WIC participation associated with improved pregnancy outcomes? Does the duration of participation in the WIC Program relate to pregnancy outcomes? What is the association between WIC participation and pregnancy outcomes in the higher risk subgroups in the WIC population?

Evaluation of the Commodity Supplemental Food Program (CSFP)
-- Assess the health and nutrition impact of CSFP on participants in a set of selected projects in the CSFP.

-- Determine administrative costs, sources of funds and in-kind contributions provided to CSFP on the State and local level.

Question: What projects have been undertaken with the FY 1982 funds available for WIC evaluation?

Answer: The Evaluation of the Impacts of the WIC Program and the Evaluation of the Commodity Supplemental Food Program received continuing funding in Fiscal Year 1982. No new WIC projects were undertaken in this fiscal year.

REALLOCATION OF FUNDS

Question: Current law requires reallocation of WIC funds amongst States should it be found that States are not utilizing their full allocation. What are the current plans for reallocation of Fiscal Year 1982 funds?

Answer: In February, FNS requested that each WIC State agency submit to the national office by March 31, 1982, a Fiscal Year 1982 expenditure plan delineating their projected food and administrative expenditures through the end of the fiscal year. FNS regional offices will provide a recommendation regarding the accuracy of the expenditure plans. The national office will examine these submittals to identify those State agencies needing additional Fiscal Year 1982 funds and those having unspent funds. Those State agencies whose expenditure plans show that current grant levels would not be expended by the end of the fiscal year would have these grant levels reduced accordingly. The recovered funds would subsequently be allocated to State agencies needing additional Fiscal Year 1982 funds.

Our intent is to make the recovered funds available to State agencies as soon as possible so they can be spent by the end of the fiscal year. We will continue to monitor State agencies' expenditures and participation, making comparisons to submitted expenditure plans, to decide whether another reallocation may be necessary.

Question: In December 1981 the Department issued final regulations aimed at addressing concerns over potential fraud in the food delivery system of the WIC Program. What has been the success of these regulations? Does concern over fraud in this area remain, and if so, what is the Department proposing to address this concern?

Answer: Final WIC food delivery systems regulations were delayed beyond the planned publication date and have not yet been issued. Based on public comment on the January 23, 1981 proposal, we drafted final regulations, which are now undergoing extended review at the Office of Management and Budget.

In addition to this regulation, we have undertaken several initiatives to improve State WIC food delivery systems and to decrease the potential for fraud. We sponsored a study to examine vendor monitoring among State agencies and will be disseminating management handbooks to States in the near future. These handbooks, developed on the basis of study results, will provide detailed guidance which States can use to improve their food delivery systems and effectively combat fraud. We have also provided funds for fourteen food delivery improvement projects, primarily to help improve the capabilities of State computer systems. Finally, we have initiated an intensive effort to improve the level and quality of technical assistance and management oversight provided by the Food and Nutrition Service in this vital area of operations.

COMMODITY SUPPLEMENTAL FOOD PROGRAM

Question: Please provide a list of current locations carrying out the Commodity Supplemental Food Program and the level of activity at those locations (cities participating in program are specific enough).

Answer: There are presently 26 local agencies participating in the Commodity Supplemental Food Program. A list identifying those agencies which operate the program along with the respective participation levels in February 1982 follows:

State	City	Participation
California	San Francisco	6,319
Colorado	Conejos	405
	Denver	8,618
	Grand Junction	714
	Greeley	2,269
	Monte Vista	553
	San Luis	285

State	City	Participation
District of Columbia	Washington	7,256
Iowa	West Des Moines	2,248*
Kentucky	Louisville	4,410
Louisiana	New Orleans	19,409
Michigan	Detroit	38,167
Minnesota	Red Lake	338
Nebraska	Gering	296
	Kearney	134
	Lancaster	85
	Loup City	112
	Omaha	1,914
	Walthill	348
North Carolina	Halifax	1,842
South Dakota	Pine Ridge	1,378
Tennessee	Dresden	498
	Dyersburg	1,088
	Memphis (2 local agencies)	11,752
	Nashville	9,593

*December participation is the latest month reported for West Des Moines, Iowa.

ELDERLY FEEDING PROGRAM

Question: What is the Department's legislative proposal for transferring the Elderly Feeding Program to DHHS?

Answer: As in Fiscal Year 1981, the Department of Agriculture is in favor of incorporating USDA's assistance into the other nutrition programs for the elderly presently provided by the Administration on Aging, DHHS. This Department's assistance has increasingly been provided to the States in the form of cash assistance in lieu of donated foods. In fact, in Fiscal Year 1982 approximately 88 percent of the appropriation of $93,200,000 is in cash assistance, with the balance of only 12 percent in donated foods. Thus, the program no longer significantly contributes to the intent of the Department's food donation program by providing outlets with foods available through price support and surplus removal activities. While we are making the abundance of cheese now in CCC storage available to the program without regard to State entitlements, we could continue to do so as long as necessary without retaining the appropriation within this Department.

Question: What impact will this have on participation in the program compared with current participation?

Answer: The Nutrition Program for the Elderly is currently administered by HHS and will continue to be after the transfer. USDA is only responsible for the commodity assistance portion of the program. Policies governing participation are within the purview of HHS. That Department, therefore, is in a better position to discuss the possible impacts of the proposed transfer.

FOOD PROGRAM ADMINISTRATION

Question: How many employees will be hired to help monitor the Summer Feeding Program in FY 1982?

Answer: The Agency has budgeted funds to authorize the hiring of at least 106 summer monitors.

Question: If the Congress rejects the legislative proposals submitted for Fiscal Year 1983, will this impact on the need for administrative funds and by how much?

Answer: The 1983 budget request of $85,477,000 for Food Program Administration includes $7,863,000 in savings related to the legislative proposals for the Child Nutrition, WIC and Elderly Feeding Programs.

Question: Why will the cost of administering the General Nutrition Assistance Program be greater than administering the current programs?

Answer: Actually, the total cost of administering the General Nutrition Assistance Program will be less than the cost of administering the current categorical grant programs. Our budget request for Food Program Administration takes into account reductions associated with the elimination of the School Breakfast, Child Care and Summer Food Service Programs. These reductions will be partially offset by new costs associated not only with the creation of the General Nutrition Assistance Program but also with giving the States assistance to effectively implement income verification and to improve their commodity distribution systems for the School Lunch Program. We estimate that the net effect of these actions will result in a cost saving of $670,000 for Food Program Administration in Fiscal Year 1983.

PRINTING COSTS

Question: The explanatory notes indicate that your costs for printing and reproduction costs will increase by $7.4 million for a total of $41.9 million in Fiscal Year 1983. Please detail how these funds are used and what accounts for the significant increase assumed for Fiscal Year 1983?

Answer: If the cost estimate of $4.1 million for coupon printing included in the 1982 supplemental request for the Food Stamp Program were added to the total printing costs for Fiscal Year 1982, the difference between the two years would amount to $3.3 million. All of this increase is related to the impact of inflation on the costs of printing food coupons.

About $1 million of the Fiscal Year 1983 costs are related to printing materials needed for the administration of all of the food assistance programs and are included in the Food Program Administration budget request. The balance of the costs are related to coupon printing for the Food Stamp Program.

NUTRITION ASSISTANCE FOR TERRITORIES

Question: Please provide the legislative proposal aimed at implementing the Nutrition Assistance for Territories program, a synopsis of that proposal and what controls will exist that the funds will continue to be used for nutrition and food programs?

Answer: The "Food and Nutrition Consolidation Act of 1982" will be submitted to the Speaker of the House and the President of the Senate after clearance within the Administration.

Question: The requested funding of the new territories grant program is $7.8 million less than would have been necessary under current authorities. How will this reduction affect the delivery of nutrition assistance in the territories?

Answer: The reduction takes into account the reduced Federal requirements inherent in block grants. Since all nutrition assistance program funds would be administered and distributed by local officials under their own program designs, delivery of nutrition assistance benefits will become more efficient and effective. Local administration would ensure that program dollars would be targeted toward the most needy and that program dollars would achieve the maximum benefit given the local circumstances.

IMPACTS OF FOOD STAMP CHANGES

Question: Please describe for the Committee the impact of the proposed food stamp legislative changes on the elderly. What percentage will be cut from the program and what percentage will have their benefits reduced?

Answer: The short-run impact of the Fiscal Year 1983 proposals, including the error reduction plan, will:

-- Exclude 23 percent of the current food stamp households with elderly members. These households will lose an average $14 per month.

-- Reduce benefits of 59 percent of the current food stamp households with elderly members by an average of $16 per month.

-- Have no effect on 13 percent of the current food stamp households with elderly members.

These represent the initial impact of the food stamp budget proposals, all other things remaining unchanged. To the extent that a reduction in overall budget spending results in a reduction in inflation, as we have recently been experiencing, the net effect of the Administration's overall policy should not be ignored. Rapidly increasing prices have continually been a very cruel tax on the elderly.

Question: What will the impact be on the working poor?

Answer: Of all the current food stamp households with monthly earned income, the Administration's proposals will:

-- Exclude 12 percent as ineligible. These households will lose, on average, $40 per month.

-- Reduce benefits of 71 percent of the current households by an average of $54 per month. The average benefit reduction for all households, including those with no change, is $47 per month.

-- Have no effect on 10 percent of the households.

Again, these represent the short run direct impact on low-income households with earnings participating in the program in any one month. Nearly two-thirds of the low-income households with earnings sometime during the year do not participate in the program. The vast majority of low-income households with earning will benefit from the broader Administration policy resulting in reduced inflation.

Question: If the Congress does not enact changes in the food stamp law, will funds, in addition to the supplemental request already pending, be necessary?

Answer: Reports received from the States indicate that, in spite of increasing unemployment, program costs and participation are remaining fairly stable this fiscal year. Hence it is possible that the $1.0 billion supplemental may be sufficient to carry the program through September 30. However, the likelihood of this occuring will be substantially increased if the proposed legislation is enacted in time for July 1 implementation.

REDUCING ERROR RATES

Question: You are proposing a new error rate sanction program which would require States to pay for all food stamp errors in excess of three percent starting October 1, 1982, and you assume a $615 million savings in FY 83 as a result. What is the current error rate for the Food Stamp Program? How will States get down to the three percent level by October 1? How will you know what the error rates are during FY 1983 in order to have States pay up? Do you really believe we will achieve $615 million in savings in FY 83?

Answer: The current error rate for the Food Stamp Program is 13.31 percent for the October 1980 through March 1981 period. This figure includes ineligibility, overissuance and underissuance errors. For overissuance and ineligibility error, the error rate is 10.57 percent. States will have until the end of Fiscal Year 1983 until they have to have achieved an annual average error rate of three percent. Thus, they actually have between March 1981 and September 1983 to lower their error rates to the three percent level. The error rate will be measured by the quality control system that each State is required to maintain. Also, the Food and Nutrition Service has initiated plans to simplify application processing requirements for AFDC, SSI and Medicaid households as well as implementing the monthly reporting and retrospective accounting system. These in addition to implementation of certain recommendations of a task force on regulation relief and the sanctions and incentives systems currently in effect are expected to help States lower their error rates.

Question: Your statement indicates that 1983 will be the third year of your efforts to reduce error rates. Could you tell me what the current error rates are and what they were January 20, 1981?

Answer: The latest error rates available are for the period October 1980 through March 1981. The national average for that period was 13.31 percent. For overissuance and ineligibility, the error rate was 10.57 percent. The quality control system measures error rates over a six month period, not for one particular point in time.

Question: If you have only had that much success in your efforts so far, what makes you so confident that within the next six months at the beginning of FY 1983, that error rates will be down to 3 percent?

Answer: The States will have until the end of Fiscal Year 1983 in which to lower their error rates to an annual average of three percent to avoid sanctions. Our proposal to make the States liable for all errors above the three percent level will provide the most powerful incentive to the States to reduce their error rates. In addition the FNS is undertaking other steps that will aid them in their error reduction efforts. Among these are simplifying application processing requirements for AFDC, SSI and Medicaid households, implementing monthly reporting and retrospective accounting, the third year of the sanctions and incentive system and setting up a task force on regulatory relief, which has examined regulations with the intent of simplifying administration.

WIC ADVISORY COUNCIL

Question: Please provide the names, affiliations and expiration dates of the terms of the appointments of members of the National Advisory Council on Maternal, Infant and Fetal Nutrition.

Answer: The 12 positions currently filled on the Council, and the expiration dates of the terms of these appointments, are as follows:

1. State WIC Program Director	Betsy Clarke Director, WIC Program Oregon State Health Division Portland, Oregon Term Expires: 9/30/82
2. State Health Officer	Alton B. Cobb, M.D. Secretary and Executive Officer Mississippi State Board of Health Jackson, Mississippi Term Expires: 9/30/82
3. WIC Program Project Director in an Urban Area	Steve Baranov Director, WIC Program Professional Associates Foundation Inglewood, California Term Expires: 9/30/82

4.	State Public Health Nutrition Director	Billye June Eichelberger, R.D. State Public Health Nutrition Director Pennsylvania Department of Health Harrisburg, Pennsylvania Term Expires: 9/30/82
5.	Parent Participant in the Commodity Supplemental Food Program	Margaret Brown Nashville, Tennessee Term Expires: 9/30/82
6.	Pediatrician	Daniel Blumenthal, M.D. Associate Professor Department of Community Medicine and Family Practice School of Medicine Morehouse College Atlanta, Georgia Term Expires: 9/30/82
7.	Official from a State Agency Serving Predominately Indians	Patricia Oocumma WIC Coordinator Eastern Band of Cherokee Indians Cherokee, North Carolina Term Expires: 9/30/83
8.	Parent Participant in the WIC Program	Brenda Lucas Baltimore, Maryland Term Expires: 9/30/82
9.	Official from the Department of Health and Human Services (DHHS)	Dr. Allan S. Noonan Special Assistant to the Director National Health Services Corps Department of Health and Human Services Hyattsville, Maryland Term Expires: Serves at pleasure of Secretary of DHHS
10.	Parent Participant in the WIC Program	Tuyet Van Kelso, Washington Term Expires: 9/30/82

11. Official from the Department of Health and Human Services	Mary C. Egan, Associate Director Program Office of Maternal and Child Health Services Bureau of Community Health Services Health Services Administration Public Health Service, DHHS Rockville, Maryland Term Expires: Serves at pleasure of Secretary of DHHS
12. Chairperson and Official from the Department of Agriculture	Mary C. Jarratt Assistant Secretary for Food and Consumer Services United States Department of Agriculture Washington, D.C. Term Expires: Serves at pleasure of Secretary of USDA

Question: Please provide the membership requirements for the Council as spelled out by Public Law 95-627.

Answer: The law mandates that the Council be composed of 21 members appointed by the Secretary of Agriculture to fill the following positions:

1. State WIC Program Director
2. State WIC Program Fiscal Director
3. State Health Officer
4. WIC Program Project Director in an Urban Area
5. WIC Program Project Director in a Rural Area
6. State Public Health Nutrition Director
7. Parent Participant in the WIC Program
8. Parent Participant in the WIC Program
9. Parent Participant in the Commodity Supplemental Food Program
10. Pediatrician
11. Obstetrician
12. Person Involved at the Retail Sales Level of Food
13. Official from the Department of Health and Human Services
14. Official from the Department of Health and Human Services

15. Official from a State Agency Serving Predominately Indians
16. State Director of a Commodity Supplemental Food Program
17. Representative of an Organization Serving Migrants
18. Representative of a Non-Profit Public Interest Organization
19. Project Director, Local Commodity Supplemental Food Program
20. Chairperson and Official from the Department of Agriculture
21. Vice-Chairperson and Official from the Department of Agriculture

Members of the Council appointed from outside the Department of Agriculture and the Department of Health and Human Services are appointed for terms not to exceed three years, except for parent participants whose terms are not to exceed two years. Members appointed from the two Departments serve at the pleasure of their respective Secretaries.

Question: How many appointments are awaiting clearance, and how long has each one been in the clearance process? Please list all vacancies on the Council and the length of time the vacancies existed. When will the vacancies be cleared and who in the Department and other agencies or offices is involved in the clearances? Where in the clearance process is each appointment presently being considered?

Answer: Nominations for seven non-Federal positions are awaiting clearance. Nominations are now being reviewed in the Office of the Secretary, USDA. The vacancies are:

1. WIC Program Project Director in a Rural Area
   Vacant as of September 30, 1981
2. State WIC Program Fiscal Director
   Vacant as of May 1981
3. State Director of a Commodity Supplemental Food Program
   Vacant as of September 30, 1981
4. Representative of an Organization Serving Migrants
   Vacant as of September 30, 1981
5. Project Director of a Local Commodity Supplemental Food Program
   Vacant as of September 30, 1981
6. Representative of a Nonprofit Public Interest Organization
   Vacant as of September 30, 1981
7. Obstetrician
   Vacant as of September 30, 1981

The various offices involved in the clearance process in USDA are: the Office of the Secretary, Office of Personnel, and the Office of the Inspector General. The Federal Bureau of Investigation must also do a "name check" for security reasons.

SUMMER FEEDING PROGRAM

Question: The Summer Feeding Program, to the best of my knowledge, is an entitlement. Will the funding provided for FY 1982 to carry out this program be sufficient to meet the need?

Answer: We are unable to say at this time whether the funding provided for FY 1982 will be sufficient because the program has not yet begun operation. In prior years, early estimates of program size have traditionally been high. Once the program is underway, the Department will be able to evaluate the effect of the recent program changes and to determine whether the available funds are sufficient.

Question: Does the Department consider the Summer Feeding Program an entitlement? Please provide any OGC opinions or letters relevant to your position on the entitlement status of the program.

Answer: The Department has no OGC opinions or letters relevant to whether or not the Summer Food Service Program is an entitlement program. Decisions regarding funding this program will be based, in part, on applications for the program as well as potential shortfalls in other child nutrition programs.

WIC REALLOCATIONS

Question: In FY 1981, the Department failed to reallocate WIC funds from States that could not use some of their funds to other States with waiting lists. 200,000 women, infants and children were removed from the program while over $50 million of unspent funds piled up. The failure to reallocate funds was a violation of the Child Nutrition Act.

To ensure that this does not happen again, the Senate Committee report and the conference report on the FY 1982 Agriculture Appropriations Act explicitly require reallocations of unspent 1982 funds during FY 1982, and direct these reallocations to be made early enough in the fiscal year so the funds can actually be spent.

In January, FNS officials said that there would be an initial reallocation of remaining FY 1981 funds by April 1, and of unspent FY 1982 funds by July 1. It is now nearly April 1. Will FNS make a reallocation on April 1? If not, why is this reallocation not being made at this time and when will it be made?

Answer: The first reallocation for Fiscal Year 1982 has been accomplished. The Fiscal Year 1982 grant levels established in January used both the newly appropriated Fiscal Year 1982 funds and the anticipated unspent funds from each State agency's Fiscal Year 1981 allocation. Any additional unspent Fiscal Year 1981 funds identified through the Fiscal Year 1981 closeout reconciliation process, will be reallocated for State agency use along with any Fiscal Year 1982 funds that may not be spent.

Question: Please provide the details of your reallocation plan for WIC funds.

Answer: In February, FNS requested that each WIC State agency submit to FNS by March 31, 1982, a Fiscal Year 1982 expenditure plan delineating their projected food and administrative expenditures through the end of the fiscal year. FNS regional offices will provide a recommendation regarding the reasonableness of the expenditure plans. The national office will examine these submittals to identify those State agencies able to use additional funds and those having unspent funds. Those State agencies whose expenditure plans show that current grant levels would not be used by the end of the fiscal year would have these grant levels reduced accordingly. The recovered funds would subsequently be reallocated to State agencies needing additional funds.

Our intent is to make the recovered funds, plus any remaining unspent Fiscal Year 1981 funds, available to State agencies so they can be spent by the end of the fiscal year. We will continue to monitor State agencies' expenditures and participation, making comparisons to submitted expenditure plans, to decide if another reallocation may be necessary.

FOOD STAMP IMPLEMENTATION

Question: Last year, USDA told the Congress it would implement the food stamp cuts in last year's Reconciliation Act on October 1. The Administration's cost estimates assumed full implementation of all provisions for all households on October 1. However, after the law was passed, FNS allowed States three additional months to convert existing households to the new rules. In addition, a November 4 audit report from OIG shows that FNS allowed 22 States to delay implementation of the new provisions beyond the relaxed timeframes in its own regulations. How much of the savings FNS originally projected for Fiscal Year 1982 was lost due to the failure to meet FNS' original assumptions that all provisions would be fully implemented for all households on October 1?

Answer: The Department originally estimated that the phase-in of certain provisions of the Reconciliation Act--particularly the gross income limit, reduction of the earned income deduction to 18 percent and proration of initial benefits--would reduce total savings by about $200 million. Trends from recent program data are consistent with the expected impacts of the Reconciliation Bill. If anything, the phase-in of the provisions progressed more rapidly than originally estimated last summer, so the loss in savings was actually slightly less than $200 million.

Question: FNS' FY 1983 budget assumes implementation of its new proposals for further cuts on July 1 of this year. A recent CBO report says this is entirely unrealistic and that FNS would not even be able to fully implement these provisions by October 1. Please provide for the record a timeframe indicating how the July 1 timeframe would be met--when is FNS assuming the bill would be passed, when would regulations be issued, and how long would States be given to implement these provisions?

Answer: We realize that implementing the Administration's 1982 legislative proposals by July 1, 1982, represents a burden to all parties involved - the Congress, Department and States. However, we believe the $273 million in estimated net savings which can be achieved as a result justify the additional effort. Our timeframe is as follows:

Passage of the bill: April 30
Publication of regulations: May 14
Implementation by States: May 17 - June 30 (44 days)

We believe that most States can meet this schedule for two reasons. First, there are only four provisions which need to be implemented on July 1 to achieve the cost savings: elimination of the earned income deduction, increase in the benefit reduction rate to 35 percent, repeal of the $10 minimum benefit for one-and two-person households, and rounding down when computing household benefits. Second, all of these changes are the type that States which have computerized the certification functions can implement by making a rapid reprogramming change.

PARTICIPATION ASSUMPTIONS

Question: Please provide a month-by-month breakout of the unemployment and participation assumptions of the President's budget for food stamps assuming current law. Please provide the same data assuming enactment of the legislative proposals.

Answer: The estimates of quarterly unemployment rates and food stamp participation in Fiscal Year 1983 under both current and proposed law are shown below.

FY 1983 Quarter	Unemployment Rate	Program Participation (million)	
		Current Law	Proposed Law
I	8.4	20.94	17.76
II	8.3	21.57	18.30
III	8.0	21.00	17.82
IV	7.8	20.12	17.07
Average	8.1	20.91	17.74

The Department's budget presentations are based on quarterly rather than monthly projections to remove some random fluctuations in the monthly series.

EQUIPMENT SURVEY

Question: The FY 1980 Agricultural Appropriations Act required a study on the School Food Service Equipment Assistance Program. This study is now several years overdue. When will it be provided and why has it been delayed?

Answer: The data collection for the study was completed during the Fall of 1980. A final report on the results of this survey has not yet been completed for two reasons: the availability of staff to work on the report has been severely limited; and the recent elimination of the Food Service Equipment Assistance Program has greatly reduced the policy relevance of the results. Current plans do, however, call for the completion and submission of the bulk of this report, the meal cost portion, to Congress by the end of June.

Question: Public Law 95-627 required a major study on the Child Care Food Program to be presented to Congress by 1980. A draft report of part of the study was completed before the last Administration left office but the study has never been provided to Congress. Why has this study been delayed and when will it be provided?

Answer: P.L. 95-627 required a report be submitted by May 10, 1980. This report was submitted as required and summarized findings to date. The final report will address all of the objectives mandated by P.L. 95-627 on the basis of complete data.

SENATE RESOLUTION 90

Question: Senate Resolution 90, adopted in 1979, called for comprehensive evaluations of the school food programs so that Congress and USDA could make far more informed policy judgments on these programs. The studies were due over a year ago. All that the Administration has provided is a brief interim report last year indicating that most of the data was still being developed. No final report has ever been issued. Why has this study been delayed and when will it be provided?

Answer: Senate Resolution 90 was passed on June 20, 1979. Senate Resolution 90 called for data on eleven issues related to participation, costs and impact of the school food programs. To comply with the intent of Senate Resolution 90 the Department of Agriculture had to collect very specific data on family income, student nutritional status, factors affecting meal costs, etc., from a large, nationally representative sample of the school aged population, their families and the schools they attend. As the need for passing the resolution implies, a comprehensive national data base on these topics did not exist previously.

The Department's response to Senate Resolution 90 (June 1981) indicated that four major studies were begun: The Nutrition Education and Training Program Evaluation; The Meal Cost and Equipment Study; The National Evaluation of School Nutrition Programs; and The Study of the Impact of the School Food Service Programs on the Agricultural Economy. The Department's 90 page response presented the conclusions of the nutrition education evaluation as well as the most salient results of the meal cost study. That response also presented a synthesis of all the nutritional impact studies done in connection with the school nutrition programs over the last twenty years. Finally the Department's June 1981 response presented a discussion of the gross impact of the school food service programs on the farm economy.

In the interim period, all new data required to respond fully to Senate Resolution 90 have been compiled. Most of these data have been analyzed. Some final reports are about to be released. Others are in advanced stages of preparation.

WIC PROGRAM STUDIES

Question: Is FNS canceling studies of the WIC Program where there is only a few months to go before the study is completed and most of the funds have already been spent? Is FNS considering canceling the important WIC study being conducted by the Massachusetts Department of Public Health, where only a few months of work remain?

Answer: FNS recently reviewed all FNS contracts and grants. The objectives of each study were reviewed, as well as the time frame of the studies. Also considered in this review were the dollars already committed to each project; projected savings incurred by project cancellation; and the cost effectiveness of a cancellation. Studies which were nearing completion were not cancelled. For example, funding was continued for the evaluation of the Commodity Supplemental Food Program, currently in its final phase of analysis. Studies which will help FNS improve program integrity and which are essential to the basic mission of the Agency are still underway and will remain so until their completion.

As you know, the evaluation of the WIC Program, conducted by the Massachusetts Department of Public Health, is due for completion in June. It has been evaluated against the same criteria as have the other studies and has not been canceled.

Question: Does FNS plan to reallocate to States those FY 1981 and 1982 WIC funds recovered through cancellation of grants and contracts? When will this reallocation be done? Does FNS recognize that failure to reallocate these funds would constitute an impoundment?

Answer: The Department will reallocate all FY 1981 and 1982 WIC funds recovered through cancellation of grants and contracts. The amount of these funds are now being identified. Once the amount is determined, we will request OMB to reapportion the funds. Once these figures are available for distribution, FNS will reallocate them immediately.

GRANTS AND CONTRACTS

Question: Will FNS provide for the record a list of every grant or contract canceled in the last 12 months with the following information on each grant or contract: what was it originally designed to do; to whom was it awarded; when was it awarded; how much was it for; what was the expected completion date of the grantee's or contractee's work; what was the date of cancellation; how much was spent; how much has been recovered; if FNS expects amounts still to be recovered in some cases, approximately how much will be recovered and when will this be done; what is the reason for the cancellation?

Answer: The requested information on the nine grants/contracts for which FNS began termination proceeding in February 1982 follows:

Descriptive title of contract: Cereal acceptability in the Supplemental Food Program for Women, Infants and Children: the effects of lowering the iron requirements for eligible cereals.

Contractor: Abt Associates, Inc.

Date of original award: September 1981

Funds obligated: $249,000

Date of expiration at time of cancellation: January 1983

Funds spent: $45,000

Most recent estimate of the amount to be recovered: $204,000

Reason for termination: Work not essential to Administration in light of our proposed policy to eliminate the categorical WIC Program in favor of a block grant for Services to Women, Infants and Children.

Descriptive title of grant: Kennebec project for women, infants and children: the relationship among free transportation, use of USDA commodities and program participation.

Grantee: Kennebec Valley Community Action Project

Date of original award: September 1980

Grant amount: $64,000

Date of expiration at time of cancellation: March 31, 1982

Funds spent: $51,000

Most recent estimate of the amount to be recovered: $13,000

Reasons for termination: Work not essential to Administration in light of our proposed policy to terminate the present categorical WIC Program in favor of a new block grant for Services to Women, Infants and Children.

Descriptive title of contract: Development of data base on program and participation characteristics for the Supplemental Food Program for Women, Infants, and Children.

Contractor: E. H. White, Inc.

Date of original award: September, 1980

Contract amount: $400,000

Date of expiration at time of cancellation: August, 1982

Funds spent: $110,000

Most recent estimate of the amount to be recovered: $290,000

Reason for termination: Work not essential to Administration in light of our proposed policy to terminate the present categorical WIC Program in favor of a block grant for Services to Women, Infants and Children.

Descriptive title of grant: Recipient characteristics and Food Stamp Program turnover: analysis using data from the Employment Opportunity Pilot Project.

Grantee: SRI International

Date of original award: September, 1981

Grant amount: $146,000

Date of expiration at time of cancellation: September, 1982

Funds spent: $37,000

Most recent estimate of the amount to be recovered: $109,000

Reason for termination: The work is not essential to Administration in light of our current and proposed policies.

Descriptive title of grant: Household characteristics, administrative practices, and economic conditions: their relationship to participation in the Food Stamp Program: an analysis of the March 1980 Current Population Survey.

Grantee: The Urban Institute

Date of original award: September, 1981

Grant amount: $76,000

Date of expiration at time of cancellation: September, 1982

Funds spent: $26,000

Most recent estimate of the amount to be recovered: $50,000

Reason for termination: The work is not essential to the Administration in light of our current and proposed policies.

Descriptive title of grant: Unqualified aliens: project for the detection of their participation in the Food Stamp Program.

Grantee: Transcentury, Inc.

Date of original award: October, 1981

Grant amount: $43,620

Date of expiration at time of cancellation: September 30, 1982

Funds spent: $11,620

Most recent estimate of the amount to be recovered: $32,000

Reason for termination: The work is not essential to the Administration in light of our current and proposed policies.

Descriptive title of contract: Training and technical assistance for implementation of the Assessment, Improvement, and Monitoring System of the National School Lunch Program.

Contractor: Development Associates, Inc.

Date of original award: September, 1980

Contract amount: $900,000

Date of expiration at time of cancellation: December, 1982

Funds spent: Through February 28, 1982: $768,046.77

Most recent estimate of the amount to be recovered: Unknown as phase-out is underway.

Reason for termination: This demand-based contract had fulfilled its major tasks: to provide training and technical assistance during the implementation of the Assessment, Improvement and Monitoring System. The FNS regional offices are capable of providing any additional training and technical assistance necessary.

Descriptive title of contract: Evaluation of the costs, meal quality, barrier to participation, and impact of the Child Care Food Program. Note: Only the impact portion of the project is being terminated.

Contractor: Abt Associates, Inc.

Date of original award: May, 1979

Contract amount: $3,500,000

Date of expiration at time of cancellation: February, 1983

Funds spent: $2.6 million

Most recent estimate of the amount to be recovered: $750,000

Reason for termination: The work is not essential to the Administration in light of our proposed policy to use the funds available for this program in a general nutrition assistance grant.

Descriptive title of contract: Study of participation and turnover rates in the Food Stamp Program and the circumstances surrounding discontinuation of participation.

Contractor: National Institute for Advanced Studies

Date of original award: September, 1980

Contract amount: $281,519

Date of expiration at time of cancellation: August, 1982

Funds spent: $100,570

Most recent estimate of the amount to be recovered: $180,949

Reason for termination: The work is not essential to the Administration in light of our current and proposed policies.

LEGAL AUTHORITY

Question: Does FNS have legal authority to cancel grants? If so, please provide an explanation of the relevant legal authority.

Answer: Yes, FNS has legal authority to cancel grants. Grants may be terminated for cause, or, at the agreement of both parties, a grant may be terminated for convenience. This authority is described in Attachment L to OMB Circular No. A-102, "Uniform Administrative Requirements for Grants-in-Aid to State and Local Governments."

Questio Has FNS requested an opinion from OGC on their authority to cancel grants and, if so, please provide a copy of the OGC reply.

Answer: FNS does not have a formal opinion from the General Counsel on the Agency's authority to cancel grants.

ANTI-FRAUD AND ABUSE PROVISIONS

Question: This Administration continues to state publicly that ridding Government programs of fraud and abuse is one of its priorities. In May of 1980, Congress passed the Food Stamp Act Amendments of 1980 which contained some of the most important anti-fraud and abuse provisions ever incorporated in any bill. Today most of these provisions have yet to be implemented. What is even more disturbing, though, is that before the Carter Administration left office, they had published the bulk of regulations needed to implement these provisions in draft form. The Reagan Administration has yet to make them final. I have a list of 17 specific anti-fraud and abuse provisions that have been enacted by Congress since May of 1980. The best we can tell, only two of these has been fully implemented. With that track record, how can you seriously say your primary effort is to cut the fraud and abuse from the Food Stamp Program and not the benefits of those who truly need them?

Answer: Congress has enacted a number of important statutory changes which contribute to the battle against fraud and abuse in the Food Stamp Program. The Department has published rules implementing a number of anti-fraud and abuse provisions already. Examples include the sanctions and incentives system encouraging State agencies to eliminate abuse, and the requirement for photographic identification of recipients in high-participation areas. Rules allowing State agencies much greater authority to verify information submitted by applicants who fit the State's error prone profile were published early in 1981. The Department also has implemented new rules to bar households from splitting into smaller units for the purpose of increasing their food stamp allotments. All remaining anti-fraud provisions enacted in May 1980 and 1981 have either been issued as final rules or are now in the final stages of regulatory clearance and will be published shortly.

At the same time, the Department is engaged in a major regulatory initiative to increase State agency administrative flexibility. A major part of this initiative has been to identify provisions in current rules which restrict State agency ability to reduce program fraud and abuse. The Department is convinced that by unfettering the hands of State agencies, significant progress can be made toward eliminating fraud and abuse in the Food Stamp Program.

Question: Please provide a list of all anti-fraud and abuse provisions added to the Food Stamp authorization since 1979, what they were intended to accomplish, whether or not they have been implemented and at what stage of implementation they currently are?

Answer: This list is provided as requested.

1980 AMENDMENTS TO THE FOOD STAMP ACT
(May 26, 1980)

Provision: Optional Retrospective Accounting (Sec. 107)

Purpose: Permits States to opt to calculate eligibility and benefits based on past, not future, income and expenses (1981 Act: to be mandatory by October 1983 and other changes made in substance)

Status:
-Proposed rule issued 12/5/80
-Final rule cancelled by OCC 9/81 in favor of mandatory rule under 1981 Reconciliation Act
-Interim final rule per 1981 Act in clearance

Provision: Optional Administrative Fraud Hearings (Sec. 109)

Purpose: Permits States to substitute court action for fraud hearings. Final rule at OMB (pending since criminal prosecution for administrative fraud hearings required by 1979 Amendments)

Status:
-Proposed rule issued 1/16/81
-Final rule in clearance

Provision: Optional Periodic Reporting (Sec. 110)

Purpose: Permits States to opt to require participants to report each month on income and other status (1981 Act: to be mandatory by October 1983)

Status:
-Proposed rule issued 12/5/80
-Final rule cancelled by OGC 9/81 in favor of mandatory rule under 1981 Reconciliation Act
-Interim final rule per 1981 Act in clearance

Provision: Income of Ineligible Aliens (Sec. 115)

Purpose: Requires counting of income of ineligible alien to household except for alien's prorata share (formerly all alien income excluded)

Status: -Proposed rule issued 1/16/81
-Final rule in clearance

Provision: Verification (Sec. 116)

Purpose: Permits States to verify an eligibility factor identified by an error-prone profile.

Status: -Proposed rule issued 8/12/80
-Final rule issued 1/13/81

Provision: Photo Identification (Sec. 117)

Purpose: Mandates photo ID's to transact an ATP in certain urban areas

Status: -Proposed rule issued 1/23/81
-Final rule issued 10/9/81
-To be implemented by 11/82

Provision: Reporting Illegal Aliens (Sec. 118)

Purpose: Requires States to notify Immigration and Naturalization Service of known illegal aliens

Status: -Proposed rule issued 1/16/81
-Final rule in clearance

Provision: Computerization and 75% Funding (Sec. 119 and 129)

Purpose: Permits States to receive 75% funding for ADP development (but not operation) if system meets standards set by Secretary.

Status: -Proposed rule issued 8/11/81
-Final rules in clearance

Provision: State Compliance with Law (Sec. 120)

Purpose: Secretary shall refer to OIG for investigation reported cases with a pattern of noncompliance.

Status: -No rulemaking, considered self-implementing

Provision: Financial Audit of High Participating States (Sec. 123)

Purpose: Require OIG to conduct special audit of any State when the food stamp participation exceeds 60% of total population.

Status: -No rulemaking, considered self-implementing

Provision: Forfeiture of Property Used in Illegal Food Stamp Transactions (Sec. 124)

Purpose: Permits USDA to retain goods bought by investigators with coupons during investigations.

Status: -No rulemaking, considered self-implementing

Provision: State incentives for reducing errors (Sec. 125)

Purpose: Permits States to earn 55%-65% administrative funding by reducing quality control error rate

Status: -Proposed rule issued 10/3/80
-Final rule issued 1/23/81

Provision: State liability for errors (Sec. 26)

Purpose: Holds States liable for quality control dollar error rates which exceed standards set by Secretary.

Status: -Proposed rule issued 10/3/80
-Final rule issued 1/23/81

Provision: Wage matching and information disclosure (Sec. 127)

Purpose: Permits States to access Social Security Administration (SSA) wage files to match information provided by applicants (Act delayed access to unemployment compensation wage files until January 1983. 1981 Farm Act: requires wage match to SSA and unemployment compensation files by January 1983)

Status: -Proposed rule issued 7/10/81
-Final rule in clearance

THE OMNIBUS BUDGET RECONCILIATION ACT OF 1981
(August 13, 1981)

Provision: Family Unit Requirement (Sec. 101)

Purpose: Prevents households from artificially dividing to obtain more food stamps.

Status: -Interim rule issued 9/4/81

Provision: Boarders (Sec. 102)

Purpose: Prevents households from artificially dividing to obtain more food stamps.

Status: -Interim rule issued 9/4/81

Provision: Retrospective Accounting (Sec. 107)

Purpose: Requires State agencies to calculate benefits using known rather than anticipated circumstances.

Status: -Interim rule in clearance

Provision: Periodic Reporting (Sec. 108)

Purpose: Requires households to report circumstances periodically or be terminated.

Status: -Interim rule in clearance

Provision: Eligibility of Strikers (Sec. 109)

Purpose: Prevents households from striking and thereby becoming eligible for food stamps or increasing their benefits.

Status: -Interim rule issued 9/4/81

Provision: Prorating First Month's Benefits (Sec. 110)

Purpose: Compute benefits based on date of application.

Status: -Interim rule issued 9/4/81

Provision: Disqualification Penalties for Fraud and Misrepresentation (Sec. 112)

Purpose: Increases the penalty for recipient fraud and misrepresentation.

Status: -Proposed rule in clearance

Provision: Improved Recovery of Overpayments (Sec. 113)

Purpose: Requires households to repay overissuances.

Status: -Proposed rule in clearance

Provision: States' Share of Collected Claims (Sec. 114)

Purpose: Permits State agencies to keep 25 percent of any overissuances they recover, except those from State agency error.

Status: -Proposed rule in clearance

THE 1981 FOOD AND AGRICULTURE ACT
(December 22, 1981)

Provision: Energy Assistance Payments (Sec. 1306)

Purpose: Restricts the kinds of State energy assistance payments that can be excluded from the calculation of benefits.

Status: -Proposed rule not yet issued

Provision: Attribution of Income and Resources to Sponsored Aliens (Sec. 1308)

Purpose: Counts as an alien's income and resources the income and resources of the alien's sponsor.

Status: -Proposed rule not yet issued

Provision: Resources (Sec. 1309)

Purpose: Permits USDA to simplify the assessment of vehicles.

Status: -Proposed rule not yet issued

Provision: Work Requirements (Sec. 1311)

Purpose: Disqualifies a certified household for two months if the head of the household quits a job.

Status: -Proposed rule not yet issued

Provision: State Issuance Liability (Sec. 1312)

Purpose: Makes State agencies liable for coupon losses and ATP losses. Makes issuing agents liable in some cases.

Status: -Proposed rule not yet issued

Provision: Access of Comptroller General to Information (Sec. 1313)

Purpose: Gives the Comptroller General access to food stamp case files.

Status: -Final rule not yet issued

Provision: Notice of Verification (Sec. 1317)

Purpose: Requires States to place on the application form a warning that information may be verified and that incorrect information could lead to denial and prosecution.

Status: -Final rule not yet issued

Provision: Information (Sec. 1321)

Purpose: Requires State agencies to match food stamp cases with wage information from Social Security and unemployment compensation agencies.

Status: -Proposed rule in clearance

Provision: Minimum Mandatory Court Sentence for Criminal Offenses; Work Restitution Program (Sec. 1324)

Purpose: Permits imprisonment for the first criminal conviction and requires imprisonment for subsequent criminal convictions for illegal use of food stamps. Permits sentencing to work restitution to repay losses to the Federal or State government.

Status: -Final rule not yet issued

Provision: Social Security Account Numbers (Sec. 1327)

Purpose: Requires food stamp applicants to furnish social security account numbers as a condition of eligibility.

Status: -Proposed rule issued 4/2/82

Provision: Workfare (Sec. 1333)

Purpose: Permits any political subdivision to require food stamp recipients to work as compensation for their food stamps.

Status: -Proposed rule in clearance

Provision: Disclosure Provision (Sec. 1319)

Purpose: Requires disclosure of casefile and other information to law enforcement and other officials.

Status: -Final rule being drafted

Provision: Elimination of 60 day Continuation of Benefits (Sec. 1316)

Purpose: Eliminates carryover of certification for 60 days when recipient moves.

Status: -Final rule being drafted

Provision: Posting Signs in Retail Stores (Sec. 1314)

Purpose: Requires stores to post signs explaining how to report violations.

Status: -Proposed rule not yet issued

Provision: Authority Granted to OIG to Carry Firearms (Sec. 1337)

Purpose: Allows OIG to carry firearms, make arrests without warrant and execute arrest warrants.

Status: -Final rule issued

Question: How much has the delay in implementing these amendments cost the Government in losses due to fraud and abuse in the Food Stamp Program?

Answer: We do not have any hard data to indicate precisely what the savings of implementing these provisions would be beyond our original projections.

The Department has implemented several of the major anti-fraud provisions of the 1980 Amendments to the Food Stamp Act. These include the verification, State sanctions and incentives, and photographic identification provisions. In addition, several provisions did not require regulatory changes. The Department has published proposed rules addressing the remaining provisions and expects to publish final rules in the near future.

Most of the anti-fraud and abuse provisions of the Omnibus Budget Reconciliation Act of 1981 were implemented less than a month after the Act was enacted. The remaining provisions include the disqualification penalties for fraud and misrepresentation, improved recovery of overpayments, and provisions for the State's share of collected claims. Because regulation of these changes requires the exercise of considerable discretion, the Department must issue proposed regulations for public comment prior to final rulemaking. Proposed rules dealing with these complex issues will be published in the near future.

Most of the anti-fraud and abuse provisions recently enacted in the 1981 Farm Bill (December 22, 1981) have yet to be included in proposed regulations. The Department is moving rapidly toward their full implementation.

In addition, the Department is engaged in a major regulatory initiative to increase State agency administrative flexibility. A major part of this initiative has been to identify provisions in current rules which restrict State agency ability to reduce program fraud and abuse. The Department is convinced that by granting State agencies more flexibility, significant progress can be made toward eliminating fraud and abuse in the Food Stamp Program.

HUMAN NUTRITION INFORMATION SERVICE

QUESTIONS SUBMITTED BY SENATOR COCHRAN

INTRAMURAL VS. EXTRAMURAL RESEARCH

Question: You indicated in your statement that you provide the public and professionals with information on the need to make food choices and maintain good health, and that is accomplished through intramural and extramural research. How much of your research is done intramurally and how much extramurally? What is the cost associated with each category?

Answer: Research in the Human Nutrition Information Service (HNIS) in Fiscal Year 1981 amounted to $7.7 million of the total $8.2 million budget. Extramural research accounted for 40 percent of this amount and, therefore, the balance was allocated for intramural research. Fiscal Year 1981 is the most recent year for which complete figures are available. Estimated levels for Fiscal Years 1982 and 1983 equal about the same proportions for extramural research.

NUTRITION EDUCATION

Question: As you know, no funds have been requested for nutrition education and training (NET) for Fiscal Year 1983 under the Child Nutrition programs. Yet, you stated in your statement that USDA is the lead agency in nutrition education. What effect will the proposed elimination of this program have on your agency? Will your agency be replacing the work done under the Nutrition Education program?

Answer: The Nutrition Education Training (NET) program in the Food and Nutrition Service is a separate program from the Nutrition Guidance Education Research done in HNIS and they have different constituencies.

Elimination of NET funding will probably increase the demand for materials from the Food and Nutrition Information Center (FNIC) of HNIS. The Center provides nationwide lending of nutrition education materials and serves as the national depository for NET developed materials.

FNIC is the only nationally accessible source for the dissemination of NET developed materials. Currently, FNIC is working with the Food and Nutrition Service staff at the Regional and Federal level, to acquire NET materials. An annotated bibliography listing NET materials is being developed. The use of existing NET resources should enable FNIC to meet an increased demand within our proposed funding level. The contents of this bibliography will also be accessible through the AGRICOLA computerized database.

NUTRITION EDUCATION RESEARCH

Question: You indicated that much of the effort of nutrition education research is targeted for special groups — the poor, the elderly, and mothers of young children. In view of the fact that the proposed budget for the food stamp program has been cut (a program for the poor), the proposed budget eliminates the USDA elderly feeding program and the Women, Infants, and Children (WIC) program. These programs are proposed for inclusion in Department of Health and Human Services grant. Will you continue your research on programs of this type for Health and Human Services if Congress goes along with these proposals? Or will this part of your budget be eliminated too?

Answer: The mission of HNIS is that of contributing to the general health of Americans by: improving professional and public understanding of the nutritional adequacy of diets and food supplies; developing new knowledge needed to improve nutritional quality of diets and collecting and disseminating technical and educational materials on food and human nutrition.

Activities conducted include special surveys of food consumption to support other nutrition programs; the Nationwide Food Consumption Survey, the Nutrient Data Bank, and the Development of the Thrifty Food Plan. We anticipate our research on eating patterns, ways of improving nutrition information, and ways of improving the delivery of nutrition will continue with the placement of these programs in HHS.

PUBLICATIONS AND EDUCATIONAL MATERIALS

Question: It is my understanding that USDA has cut back on the number of publications and informational materials made available to the public already in Fiscal Year 1982. Has this USDA direction affected the Human Nutrition Information Service? If not, how come, and if so, to what extent? Will you be charging for these materials and publications?

Answer: In line with the Department's effort to reduce costs associated with providing information to the public, HNIS has discontinued some of its publications and plans to communicate priority information from some of these publications in less expensive ways. Ways are being explored to release information in less expensive formats such as fact sheets, press releases (some which are provided electronically), to professionals, who will relay information to the public, or joint efforts with the private sector.

In November 1981, 14 of HNIS' 27 publications for the general public (excludes technical publications) were dropped.

Generally the Department provides, on request, free single copies of those publications which are available; quantity of all publications and some publications no longer in the Department's free stock are available for sale from the Superintendent of Documents.

INITIATIVES WITH PRIVATE SECTOR

Question: You set forth in your statement that you will be having cooperative ventures with private enterprise, private foundations and societies. Will the costs of these ventures be shared?

Answer: The costs of cooperative ventures with private enterprises, private foundations and societies will be shared. Our contribution is to come primarily through provision of technical expertise and staff support.

SUBCOMMITTEE RECESS

Senate COCHRAN. We have another hearing of this subcommittee scheduled for Tuesday, here in the same hearing room, at 9:30 a.m., and we will at that time hear from witnesses representing the Foreign Agricultural Service; Public Law 480/General Sales Manager; Office of International Cooperation and Development; Agricultural Marketing Service; and the Federal Grain Inspection Service.

The subcommittee now stands in recess.

[Whereupon, at 11:23 a.m., Friday, March 26, the subcommittee was recessed to reconvene at 9:30 a.m., Tuesday, March 30.]

AGRICULTURE, RURAL DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1983

TUESDAY, MARCH 30, 1982

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, D.C.

The subcommittee met at 9:30 a.m., in room 1318, Everett McKinley Dirksen Senate Office Building, Hon. Thad Cochran (chairman) presiding.

Present: Senators Cochran and Kasten.

DEPARTMENT OF AGRICULTURE

AGRICULTURAL MARKETING SERVICE

FEDERAL GRAIN INSPECTION SERVICE

STATEMENTS OF:

MILDRED THYMIAN, ADMINISTRATOR, AGRICULTURAL MARKETING SERVICE,

KENNETH A. GILLES, ADMINISTRATOR, FEDERAL GRAIN INSPECTION SERVICE

ACCOMPANIED BY:

C. W. McMILLAN, ASSISTANT SECRETARY FOR MARKETING AND INSPECTION SERVICES

WILLIAM T. MANLEY, DEPUTY ADMINISTRATOR, MARKETING PROGRAM OPERATIONS, AGRICULTURAL MARKETING SERVICE

EDDIE F. KIMBRELL, ASSOCIATE DEPUTY ADMINISTRATOR, MARKETING PROGRAM OPERATIONS, AGRICULTURAL MARKETING SERVICE

IRVING W. THOMAS, DEPUTY ADMINISTRATOR FOR MANAGEMENT, AGRICULTURAL MARKETING SERVICE

JOSEPH A. ROEDER, ACTING DIRECTOR, FINANCIAL MANAGEMENT DIVISION, AGRICULTURAL MARKETING SERVICE

DAVID R. GALLIART, DEPUTY ADMINISTRATOR, FEDERAL GRAIN INSPECTION SERVICE

JOHN T. REEVES, ACTING DEPUTY ADMINISTRATOR FOR MANAGEMENT, AGRICULTURAL MARKETING SERVICE

BRADLEY L. HEIGES, BUDGET ANALYST, FINANCIAL MANAGEMENT DIVISION, AGRICULTURAL MARKETING SERVICE

ROBERT SHERMAN, DEPUTY BUDGET OFFICER, DEPARTMENT OF AGRICULTURE

INTRODUCTION OF WITNESSES

Senator COCHRAN. The subcommittee will come to order.

This morning, we welcome representatives from the Foreign Agricultural Service, the Office of International Cooperation and Development, the Agricultural Marketing Service, and the Federal Grain Inspection Service.

We will operate today with two panels. Our first panel consists of representatives from the Agricultural Marketing Service and the Federal Grain Inspection Service, both of which come under the jurisdiction of the Department's Assistant Secretary for Marketing and Inspection Services.

ACTIVITIES OF AMS

The Agricultural Marketing Service carries out a wide variety of programs authorized by several agricultural marketing laws. Through its marketing and regulatory programs, the Agricultural Marketing Service promotes the orderly and efficient marketing and distribution of farm products. It provides a market news service; various inspection, grading and standardization services; and a broad array of market protection and promotion activities.

The President is requesting $31.4 million for AMS in fiscal year 1983, a decrease of $7.9 million from the amount appropriated for fiscal year 1982.

ACTIVITIES OF FGIS

The Federal Grain Inspection Service is responsible for carrying out grain inspection, weighing, and other programs under the authority of the U.S. Grain Standards and Agricultural Marketing Acts. It promotes, protects, and facilitates domestic and foreign commerce of U.S. grain by establishing official U.S. standards, by insuring the uniform application of those standards through official weighing and inspection programs, and by certifying official grain quality and weights. Producers, merchandisers, processors, and consumers alike benefit from these services.

The fiscal year 1983 request for the Federal Grain Inspection Service is $5,195,000, a decrease of $405,000 from fiscal year 1982.

INTRODUCTION OF ASSOCIATES

We are happy to have with us this morning Bill McMillan, Assistant Secretary for Marketing and Inspection Services. We welcome you and your colleagues to the committee. Joining Secretary McMillan in this panel are Mildred Thymian, Administrator, Agricultural Marketing Service, and Kenneth Gilles, Administrator of the Federal Grain Inspection Service.

Mr. Secretary, I understand you have an early flight to catch, so we want to recognize you at this point for any comments or statements you would like to make and for any introductions of colleagues who are accompanying you this morning. I know your Deputy, John Ford, is here in case we have questions that relate to major policy issues in your absence.

PREPARED STATEMENTS

We have Mrs. Thymian's and Mr. Gilles' prepared statements which we will, of course, put in the record at this point, and we will invite them to make any comments or statements they might like before we move into questioning.

[The statements follow:]

PREPARED STATEMENT OF MILDRED E. THYMIAN
ADMINISTRATOR

AGRICULTURAL MARKETING SERVICE

Mr. Chairman, Members of the Committee:

I would like to thank the Chairman and the rest of the Committee for the interest you have shown in the programs of the Agricultural Marketing Service. This is my first appearance before this Committee to discuss the programs of AMS and our 1983 budget request. Appearing with me today are William T. Manley, Deputy Administrator, Eddie F. Kimbrell, Associate Deputy Administrator, Irving W. Thomas, Deputy Administrator for Management, and Joseph A. Roeder, Acting Director of our Financial Management Division.

Departmental Reorganization

Since our last appearance before the Committee, AMS has assumed some important added responsibilities. In October of 1981 the Secretary transferred from FSQS to AMS the responsibility for: egg products inspection; standardization and grading for meat, dairy products, fruits and vegetables, poultry and eggs; and administration of the Section 32 fund. Also, the Secretary's reorganization established the Packers and Stockyards Administration as a separate agency. The purpose of this reorganization was to consolidate in one agency a major share of the Department's food and fiber marketing programs. We are organized along commodity lines. Therefore, it is now possible for farmers to have their marketing service needs met by dealing with a single agency.

Market News

Market information provides one of the basic components of free market competition. Market news reporters gather, verify, and disseminate market information necessary for buyer/seller decision making. The ready availability and accuracy of our market reports are the key factors that enhance effective price discovery for farm commodities.

Market reports are disseminated over radio, television, newspapers and other private publications, automatic telephone answering devices, central 900 - telephone lines, and through printed mailed market releases. In short, we attempt to provide farmers with market information in the form and at the time most useful to them. In an effort to make market news available in an even more timely fashion, we have initiated a pilot project with the Public Broadcasting System to air market reports over television. We hope that the results of this project will enable us to further enhance the value of our market reports to the user while lowering our distribution costs.

Our analyses of the costs for dissemination show that the printed, mailed market report has become very costly relative to other ways of reporting market news. Consequently, we are studying the most cost-effective means of implementing a user charge to cover the cost of printing, mailing and handling of mailed market reports as authorized by the Agriculture and Food Act of 1981.

Egg Products Inspection

Under the Egg Products Inspection Act, we are required to maintain continuous inspection of all egg processing operations and to inspect on at least a quarterly basis all shell egg establishments. We are currently expanding our chemical residue surveillance program to more adequately ensure the safety of egg products and, indirectly, poultry products.

Commodity Grading and Standards

One of our major responsibilities is the administration of a standardization and grading program for dairy, fruits and vegetables, poultry and eggs, meat, livestock and wool. These grading services are for the most part paid for by the user.

Effective October 1, 1981, AMS implemented a user fee program for the grading of cotton, tobacco, and naval stores, and for warehouse examination. Prior to this, these programs were funded by appropriations.

The tobacco grading program is operating smoothly with revenues approximating projected levels. The current fee is forty-five cents per hundredweight for all types of tobacco.

In the wake of a 15.5 million bale cotton crop, we are closely monitoring cotton classing costs and revenues. Our major revenue sources in this program are fees for classing cotton, the sale of loose cotton samples, and the sale of cotton standard forms. It appears that our earnings projections for the classing of cotton are reasonably accurate. The current classing fee is sixty cents per bale. However, due to the precipitate drop in the price of cotton, revenues from the sale of loose cotton samples will fall below earlier estimates. It is still too early to predict what our revenue from standard forms will be since most standards are sold after the season closes.

Earlier agreements with many ginners to collect the user charges from producers have shown mixed success. Some ginners are not fulfilling their collection agreements thereby forcing unplanned additional billings and collection expenditures on AMS. We are also closely monitoring user non-payments, a situation which we are hopeful will not occur.

Through on-site audits and financial requirements for warehouses licensed under the U.S. Warehouse Act, this program provides assurance to lenders that commodities represented by U.S. grain warehouse receipts are safe from loss. Applicants for U.S. warehouse licenses are currently paying a yearly license fee ranging from $250 to $1,250.

The Commodity Credit Corporation currently is reimbursing AMS for one-half the cost of the U.S. warehouse examination program, since many of these warehouses also store CCC-owned or pledged commodities. Appropriations have been extended to cover the cost of examining cotton warehouses. In addition, we examine on a reimbursable basis warehouses storing CCC-owned or pledged commodities which are not licensed under the U.S. Warehouse Act.

We do not know the effect of user fees on participation in the warehouse examination program. We do not feel, however, that the drop-out rate will be enough to seriously endanger the program. We will certainly keep the Committee informed of the progress of the newly implemented user fee programs.

To make our grading program possible we develop national and international standards for cotton, dairy, tobacco, meat and livestock, poultry and eggs, fruit and vegetables, and naval stores. This standardization program provides a well defined language of trade which facilitates the buying and selling of these commodities. This program also encompasses our government-wide food quality assurance effort, which monitors Federal food specifications to reduce government costs by promoting specification uniformity and the use of standard off-the-shelf products. To keep our standards useful to the users, standards are revised as necessary.

We are currently in the process of considering changes in our beef grade standards. Last month we held hearings across the country on our proposed changes in the standards, with comments due from all interested parties by March 31. After reviewing these comments we will decide what changes, if any, should be made in our beef grading system.

Market Protection and Promotion

AMS also administers the Federal Seed Act, the Plant Variety Protection Act, and maintains oversight of industry funded and directed research and promotion programs.

In an attempt to reduce overall Federal spending we are currently negotiating with the Animal and Plant Health Inspection Service to transfer responsibility for Title III of the Federal Seed Act to APHIS. Title III pertains to the Secretary's discretion to authorize the testing of imported seed and can easily be combined with APHIS noxious weed seed inspections. We hope to complete this effort by the end of this fiscal year.

Wholesale Market Development

The wholesale market development program has provided research and techncial assistance in reducing food marketing costs by assisting in the planning for modernization and/or relocation of outdated wholesale distribution facilities. This program will continue in operation in FY 1982. However, due to budgetary constraints, it is proposed for termination in FY 1983.

Marketing Agreements and Orders

This past year has been a year of reevaluation in our fruit and vegetable marketing order program. In response to the President's Task Force on Regulatory Relief, a study analyzing the economic impacts of the fruit and vegetable marketing order system was released by the Secretary in November 1981. Recommended marketing order guidelines were subsequently released on January 25 which provided the Administration's policy relative to the various features of fruit and vegetable marketing orders. I can assure you that we will be devoting a great deal of effort this year in working with the various industries on marketing order policy for our existing 48 fruit and vegetable marketing orders.

We are also in the early planning stages of a similar study on the milk marketing order system, which will, no doubt, impact future policy in milk marketing orders. In conjunction with other Agencies of the Department, we are preparing a report mandated by Section 107 of the Agriculture and Food Act of 1981. This report will require an exhaustive study of all dairy programs, including the milk marketing order program.

Federal-State Marketing Improvement Program

Our Federal-State Marketing Improvement Program provides matching grants for projects which offer promise in enhancing the efficiency of the agricultural marketing system. While no projects have been initiated this year, we are in the process of evaluating several proposals. Approved projects are carried out on a matching fund basis with State Departments of Agriculture and land grant universities.

Perishable Agricultural Commodities Act

This program requires the licensing of all fresh fruit and vegetable dealers and brokers. The Act provides protection to producers, shippers, distributors and retailers from unfair and fraudulent practices in the interstate marketing of fresh fruits and vegetables and prevents the unwarranted destruction or dumping of farm products handled for or on behalf of others. When disputes arise we institute proceedings to settle the case. Where possible, violations are dealt with on an informal agreement basis. When this is not possible, AMS renders formal decisions involving separation awards and/or the suspension or revocation of license.

Section 32

AMS is appropriated thirty percent of customs receipts for use in purchasing commodities for domestic feeding programs and for removing burdensome supplies of commodities from regular market channels. AMS currently transfers about 80 percent of this appropriation to the Food and Nutrition Service and to the Commerce Department. The remaining 20 percent is used to fund direct purchases of surplus commodities, Marketing Agreements and Orders and the Emergency Reserve. This completes my overview of the programs in AMS.

I would like, at this time, to discuss briefly our 1983 budget request.

1983 Budget Request

In keeping with the Administration's efforts to reduce the burden of government, AMS is engaged in an agency-wide effort to control costs and apply sound management principles to achieve improved efficiency and effectiveness.

Of our total 1983 proposed program level of approximately $142 million, only $36 million or 25 percent of our total funds are proposed to be appropriated. Our 1983 budget request continues our movement towards recovering costs from the beneficiaries of our programs. We feel that in general industry will support our efforts to reduce government expenditures while preserving valuable services for the agricultural sector. We also believe that industry-monitored user fee operations are, on the whole, more efficiently operated than appropriated programs.

We are proposing a 1983 appropriation for all of AMS of $36 million, an $8.8 million or 20 percent decrease from the 1982 appropriation. Of this reduction, $2.5 million be recovered by user fees. The only increase request is for the restoration of pay costs absorbed in FY 1982.

Market News Reduction

We are proposing a net decrease in 1983 of $1.4 million in our market news program. This consists mainly of a decrease of $1.25 million for printed, mailed market reports and a reduction of $750,000 for market news reporting.

The proposed $1.25 million reduction in printed, mailed reports will be achieved by charging user fees to cover the printing, mailing and handling costs of these reports. As I stated earlier, we are studying the most cost effective means of implementing this user fee concept in 1982. Enabling legislation, however, is required for us to charge for cotton and tobacco mailed reports and we are proposing this change in order to provide uniformity in administering this program.

Inspection, Grading and Standardization

The 1983 budget proposes a net decrease of $2.5 million for this activity. The major reductions consist of a decrease of $1.2 million to place the fresh fruit and vegetable and poultry grading programs on a full user-fee basis, a decrease of $223,000 in our food quality assurance effort, a decrease of $81,000 in our livestock and wool standards program and a decrease of $1.5 million in egg products inspection. The reduction in egg products is contingent upon proposed legislation which would provide the Secretary more discretion in determining appropriate methods of inspection and in reducing the number of shell egg surveillance visits from four to one per year. It will be submitted to Congress along with similar recommendations for the meat and poultry inspection programs.

Market Protection and Promotion

We are proposing a net decrease of $829,000 for this activity consisting largely of a decrease of $613,000 for the Federal Seed Act program, a decrease of $261,000 for the Plant Variety Protection Act program, a decrease of $23,000 in research and promotion activities, and a decrease of $11,000 in the tobacco export permit program.

Wholesale Market Development

We are proposing that the $1,463,000 available for this program be eliminated. Our pioneering work in the development of major wholesale markets has largely been completed and made available to State and local governments and to industry. The technical information necessary to update obsolete facilities and practices can be used by private consultants for specific projects. Therefore, we feel that Federal assistance is no longer necessary. Our budget proposal does not include funds to cover close out costs.

Market Supervision and Assistance

A net decrease of $632,000 is proposed for this activity mainly as a result of efficiencies made in our commodity purchase functions.

Federal-State Marketing Improvement Program

Our budget request proposes the elimination of this program thereby saving $1 million. We feel that it is more appropriate that State Departments of Agriculture conduct efforts aimed at resolving local marketing problems.

Marketing Agreements and Orders

A net decrease of $941,000 is proposed, by reducing the administrative support for the marketing order program.

Section 32

For the Section 32 program we are proposing that we purchase $53 million less in commodities in fiscal year 1983 than in 1982. This proposal would maintain, at the 1982 level, our planned level of purchases from regular Section 32 funds, with the decrease coming in purchases from our emergency reserve fund. In FY 1982 a $53 million surplus removal program, using funds from the emergency reserve, was undertaken to protect producers of meat, raisins and turkey from excessive losses. In FY 1983 our budget request proposes no surplus removal operations from our emergency reserve fund. Should unforeseen surplus develop, we will still have available $292 million in our emergency reserve fund for such contingencies.

Mr. Chairman, this concludes my overview of the 1983 AMS budget request and I will be happy to respond at this time to any questions which you or the Committee may have.

PREPARED STATEMENT OF KENNETH A. GILLES
ADMINISTRATOR
FEDERAL GRAIN INSPECTION SERVICE

Mr. Chairman, Members of the Committee:

I appreciate this opportunity to appear before the Committee today, and I want to thank you for taking the time from the Committee's very busy schedule to allow us to address recent changes in the Federal Grain Inspection Service as well as to present our Fiscal Year 1983 budget request. I will keep my comments brief and to the point.

FGIS received new leadership with the change of administration. On June 4, 1981, I was confirmed by the Senate to serve as the Administrator, after having been appointed by the President. It is with great pleasure that I accepted this most challenging assignment. Indeed, when one recognizes that 71 percent of the value of agricultural exports comes from grains and oilseeds, the importance of maintaining a creditable national grain inspection and weighing system clearly emerges.

USER FEES

The most significant event affecting the Agency since my confirmation was the impact of the user fee provisions of the Omnibus Budget Reconciliation Act which became effective October 1, 1981. Under the new law, FGIS is required to charge user fees to recover administrative and supervisory costs associated with official inspection and weighing of grain. This funding arrangement changes FGIS from 58 percent user fee financed in Fiscal Year 1981 to 89 percent user fee financed in Fiscal Year 1982.

REORGANIZATION

With the imposition of the additional user fees, we immediately realized that if our rates were excessive, industry would strenuously object to the increased fees and would not request our services for discretionary inspection and weighing. The net result would be increased deficits for FGIS. As a result of these concerns, an in-depth analysis of the organizational structure was conducted. The end result of this analysis was that FGIS was reorganized. A major reduction-in-force (RIF) was made in both the field and headquarters staff. The reorganization represents a significant reordering of the Agency's priorities.

With assistance of three Agency task forces and extensive dialogue with the users of our services, the analysis of the organization structure disclosed that the program management was critically in need of review and restructuring. It was concluded that the management structure above the field office level had expanded beyond the point of cost effectiveness. By removing three administrative layers, emphasis was placed on delegating more authority to the field offices and the official agencies. The purpose of the reorganization is to maintain the integrity of the national inspection system and yet operate in a cost effective manner.

We will continue to look at the programs, policies and procedures, and statutory requirements to determine the most cost effective manner to conduct the Agency's affairs. Our goal is to increase productivity of the workforce, and deliver an impartial inspection and weighing service of quality to the users--the grain producers, merchants, and buyers--both domestic and foreign.

Our income is dependent on industry usage of our services; we are never certain what our total revenues will be. The uncertainty is more pronounced this year since Congress mandated that the additional user fees for supervision and administration of inspection and weighing begin October 1. We are attempting to keep our costs to a minimum. However, the grain industry will provide the key to the future.

The degree to which credibility of the national inspection and weighing system is maintained remains a concern for public officials and certain private individuals. Newspaper articles have appeared suggesting that the RIF in FGIS, will lead again to situations conducive to scandals. I am certain that the Congress would not desire, nor permit, a return of that situation. Therefore, it is incumbent upon the industry, as well as the FGIS, to maintain the high degree of credibility that has been created for the grain marketing, inspection, and weighing systems in the United States. Moreover, the importing nations are concerned about the ultimate effect on quality and reliability of

United States grain exports that these changes in user fees will have on the official system. As you know, many of the importing nations prefer to have the assurance of a Government authorized program. I believe, however, that FGIS can, through reorganization, better serve the public need and Congressional mandate.

ADVISORY COMMITTEE

We are pleased that the Congress reestablished the Advisory Committee. We feel confident that the Committee will prove to be an excellent source of advice and counsel to the FGIS as we deal with critical issues affecting the future of the national inspection and weighing system. We want an organization that is foresighted, and innovative; so there will be fewer and less intense problems.

We are reaching out to the users, striving to improve the FGIS organization and program, interacting with the people paying the bills, and trying to redirect a system that has, as its driving force, service complying with nationally acceptable standards.

There is one very sensitive area that calls for the wisdom and advice of the Advisory Committee that we have already started working on. It is "supervision of the system." How can it best be achieved? We want to provide a Federal-State-private, third-party, unbiased, inspection system as was initially envisioned by the Congress. The supervision or surveillance of the national system now is being funded by the users themselves, with limited appropriated funding for compliance and standardization activities. How we supervise and monitor the system and still maintain its integrity is the prime issue. We shall continue to closely examine this issue and keep the Appropriation Committees and the Agriculture Committees advised in our Annual Reports to Congress.

SAFETY

Grain elevator explosions remain a hazard to the industry. One FGIS employee was killed and seven others were seriously injured in 1981. Of the approximately 9,560 elevators in the United States, explosions occurred in 21 of them during 1981. The FGIS safety program will continue to maximize the safety of our employees and provide information and surveillance on grain elevator explosions.

RESOURCES

As a final comment, I would like to touch again on the subject of fees. The amount of our income is based on the volume of the grain merchandized by the people we service. This Committee is well aware of the fact that during the past few months grain exports are at lower levels. To FGIS, this translates into less work and less income. One could say that an accurate, uniform and unbiased grain inspection and weighing service enhances the demand for U.S. grain, thereby facilitating foreign exchange, and improving the balance of payments. The long term export picture for the future should be positive. The Department of Agriculture, with full Administration support, has mounted a vigorous campaign to move U.S. grain into the world market. The Federal-State-private national inspection system must be prepared to meet this challenge. There is a very fine line separating how far we may be forced to reduce the workforce due to lower income and still be able to respond to industry needs. We feel this challenge may be met with the use of part-time and intermittent employees to supplement the permanent workforce. We want to provide a "NO-FRILLS" service to the users of the national inspection system.

FISCAL YEAR 1983 REQUEST

This year's request represents our continued efforts to comply with the President's objective of minimizing the Nation's deficit. The budget for FGIS for Fiscal Year 1983 is $49,508,000. Of this amount $44,313,000 will be funded from fees and $5,195,000 from appropriated funding. Our appropriated request represents a $405,000 decrease from the amount appropriated in Fiscal Year 1982. Funding for both the standardization and compliance programs will decrease. Included in our proposals are funds to establish an international monitoring staff and an Advisory Committee. I will elaborate on these increases and reductions shortly.

As one views the recent history of FGIS funding, the actual expenditures for Fiscal Year 1981 totaled $57,005,357 and the total Fiscal Year 1982 expenditures are estimated to be $49,913,000. The overall result in total agency expenditures is a decrease of $7 million.

In our Fiscal Year 1983 request, we intend to carry out our inspection and weighing services, supervise Federal and official agency employees, administer our programs, and stay within the estimated fee expenditures of $44,313,000. The export volume will influence the outcome.

PROGRAM REDUCTIONS

As I have already pointed out, appropriated funds now cover only our compliance and standardization activities. During Fiscal Year 1982 we experienced a 5 percent reduction in appropriated funds for the standardization and compliance programs. As directed by Congress, we also changed the funding of the supervision and administrative costs for inspection and weighing services to the user fee account. This resulted in an additional savings of $24,101,000 or 80 percent in appropriated funds. The current proposal is to reduce appropriated funds by an additional 7.2 percent or $405,000 below Fiscal Year 1982.

Standardization Program. Our standardization program will be reduced by $690,000. FGIS will reevaluate its research priorities and concentrate its efforts on those projects promising greatest results.

Compliance Program. The FGIS compliance program will be reduced by $207,000. Our recent reorganization emphasizes service rather than regulatory programs as the primary mission of FGIS.

In addition to these program reductions, we also are requesting increases for program operations in two areas.

International Monitoring. To maintain the prominent position of the United States in the international grain trade, which amounted to approximately $30 billion in 1981, $270,000 is requested to fund the international monitoring program. Monitoring will be initiated and coordinated on grain and processed grain commodities. Prompt and thorough response to any inquiries will ensure the continued favorable trade relations with foreign buyers.

Federal Grain Inspection Service Advisory Committee. As mentioned earlier, Congress, through the Omnibus Budget Reconciliation Act, re-established the Grain Advisory Committee. An increase of $60,000 is asked to support this Committee. The Advisory Committee consists of 12 members appointed by the Secretary of Agriculture. It will meet approximately four times per year.

FISCAL YEAR 1982 OPERATING RESERVE

At the time the budget was developed, costs were estimated to exceed revenues by $1.7 million in Fiscal Year 1982. With a carry in balance at the beginning of Fiscal Year 1982 of over $7.7 million, some operating flexibility at the end of the year would have been possible. However, it now appears that revenue will be below the level previously anticipated particularly in the domestic operations. In spite of major cost-cutting efforts to date and further anticipated actions, we expect to end Fiscal Year 1982 with little or no operating reserve.

LIMITATION ON FEES

Elimination of the limitation on obligations from fees has been proposed. The present legislation limits obligations for inspection and weighing services to $60,260,000. This limitation does not take into account the vagaries of the grain trade or the necessity of the agency to adjust its budget to meet the demand for service. For example, if a large increase in the volume of grain to be exported is experienced, a ceiling could cause a limitation in inspection and weighing services which in turn would restrict or temporarily discontinue export grain shipment. Consequently an arbitrary cap or ceiling may curtail our ability to perform services necessary to facilitate continued export of grain. Our working relationship with the industry, and their very close scrutiny of our fees and costs assures that we cannot take arbitrary action to increase costs in the inspection and weighing program. For your information, our costs for Fiscal Year 1982 are expected to be more than 25 percent below the ceiling level.

We appreciate the interest Congress has shown in FGIS. We aspire to maintain the integrity of the official grain inspection and weighing system and will continue to carry out our responsibilities in a timely and cost effective manner. We are going to refocus the FGIS programs back to the basics--what do the Grain Standards Act and the Agricultural Marketing Act tell us and/or permit us to do? Sound fiscal management and cost reduction actions will continue to be our challenge and mandate.

Mr. Chairman, this concludes my testimony. I would be glad to answer any questions you or other members of the Committee may have.

BIOGRAPHICAL SKETCHES

KENNETH A. GILLES

Educator and cereal chemist Kenneth A. Gilles, on leave of absence from the North Dakota State University (Fargo), has been confirmed by the Senate as Administrator of USDA's Federal Grain Inspection Service (FGIS). Established in 1976, FGIS ensures the accurate weighing and inspection of all U.S. grain exports, and supervises weighing and inspection of grain intended for domestic use. The agency also develops and reviews official grade standards for grain and other commodities.

Gilles was born March 6, 1922, in Minneapolis, Minnesota. He graduated from the University of Minnesota at Minneapolis in 1944, served in the U.S. Navy in the Western Pacific until 1966, when he joined Pillsbury Mills, Inc., as a research engineer concerned with developing convenience foods and derivitives of fats and oils.

In 1948, he returned to the University of Minnesota as a graduate student, and became an instructor and research fellow in the Department of Agricultural Biochemistry. Following completion of the Ph.D. degree in biochemistry, he joined the Research Department of General Mills, where he became the project leader for wheat quality and milling research. In 1961, he became Professor and Chairman of the Department of Cereal Technology at North Dakota State University. The research program involved the development of new grain varieties for the Spring wheat regions, including Hard Red Spring wheat, Durum wheat, and barley. The department became actively involved in providing assistance for export market development in association with Great Plains Wheat and Western Wheat Associates. Gilles participated in a number of wheat trade team activities in Europe and Asia.

In 1969, he was appointed Vice President for Agriculture at North Dakota State University. As the administrative head of agriculture, he had the responsibility for the Agricultural Experiment Station, the Cooperative Extension Service, College of Agriculture, and international training programs. His activities included legislative liaison with the State and Federal Governments. He was responsible for program and budget evaluations, planning and staffing for the agricultural unit of the State Land Grant University.

He saw combat duty in the Western Pacific theatre, he has served as Editor-in-Chief of Cereal Chemistry, President of the American Association of Cereal Chemists, Chairman of the Great Plains Agricultural Council, Chairman of the Legislative Committee for the USDA Budget, Division of Agriculture, National Association of State Universities and Land Grant Colleges.

Gilles and his wife, Beverly, have two children, both physicians.

Eddie F. Kimbrell

KIMBRELL, Eddie F., Associate Deputy Administrator, Program Operations, Agricultural Marketing Service, U.S. Department of Agriculture. B.S. Oklahoma State University, 1955; Graduate Assistant, Oklahoma State University, 1955-56; USDA meat grader, 1959-60; Agricultural Marketing Specialist, 1960 to 1972; Deputy Administrator, Food Safety and Quality Service, 1977-1981; recipient of the Career Education Award awarded by the National Institute of Public Affairs with a year's study in Public Administration at Stanford University, Palo Alto, California, 1968-69.

As Associate Deputy Administrator for Program Operations, responsible for directing and coordinating USDA food grading and standardization programs and for the procurement of foods purchased by USDA for distribution in school lunch and other feeding programs. Food grading, standardization, and procurement programs include those for meat, poultry, dairy, and fruits and vegetables. Also, responsible for directing Government-wide activities related to quality assurance for food procured by Government agencies, and for U.S. activities to develop international food standards.

Joseph A. Roeder

Mr. Roeder was named Deputy Director of the Financial Management Division in June, 1981 and is currently serving as Acting Director of the Division. He is a native of Pennsylvania and received his Bachelor's Degree from the Catholic University of America in Washington, D.C. He served three years in the Army as an Officer. Mr. Roeder began his Federal career in January, 1971 when he was employed by the Financial Management Division as a budget analyst. He has worked in the Division since that time and was named a Branch Chief in August, 1978. Mr. Roeder and his wife, Carol Jo, have three sons, J. Adam, Matthew and Jonathan.

INTRODUCTION OF AMS ADMINISTRATOR

Mr. McMILLAN. Thank you very much, Mr. Chairman. I do appreciate your consideration and understanding in my having to slip away before these hearings are completed. Unfortunately, airlines don't always fly when you like to fly, and that is what I am confronted with this morning.

I am happy to be accompanying both Mrs. Thymian and Dr. Gilles. I would like first to have Mildred Thymian present to you a summary of the budget request for the Agricultural Marketing Service.

ADMINISTRATOR'S OPENING REMARKS

Senator COCHRAN. Mrs. Thymian, welcome to the subcommittee.

Mrs. THYMIAN. Good morning.

I would first like to introduce my colleagues: William Manley, Deputy Administrator for Marketing Programs; Associate Deputy Administrator, Eddie Kimbrell; Deputy Administrator for Management, Irving Thomas; and Joseph Roeder, Deputy Director of our Financial Management Division.

FISCAL YEAR 1982 PROGRAM HIGHLIGHTS

I would like to briefly mention a few of our program highlights.

In October 1981, the Secretary transferred to AMS from FSQS the responsibility for egg products inspection; standardization and grading of meat, dairy products, fruits and vegetables, poultry and eggs; and administration of the section 32 fund. In addition, the Secretary's reorganization established the Packers and Stockyards Administration as a separate agency.

You have already mentioned that we are responsible for market news which we consider one of our priority programs. We have made a considerable effort to make market news more available. For example, we have initiated a program with PBS, National Public Television, to disseminate market news over five public television stations throughout the country.

We are also evaluating how best to implement a user charge for our printed market news reports. We are looking forward to implementing this change in the very near future.

In the area of egg products inspection, we are currently expanding our chemical residue surveillance program to more adequately insure the safety of our egg products and, indirectly, poultry products. We are also proposing legislation which will provide the Secretary more discretion in the administration of this program.

As required by the Omnibus Budget Reconciliation Act of 1981, effective October 1, 1981, AMS implemented a user fee program for the grading of cotton, tobacco, and naval stores, and for grain warehouse examination. Prior to this, these programs were funded by appropriations.

The tobacco grading program has made a very smooth and effective transition to user fees. We are monitoring the cotton grading program very closely. In the grain warehouse examination program, it appears that we are making a very successful transition to user fees.

In our U.S. Warehouse Act program, we have worked out an agreement with the Commodity Credit Corporation in which they will share the costs of warehouse examinations, since CCC commodities are stored in many of those warehouses.

In our grading program, we develop national and international standards for cotton, dairy, tobacco, meat and livestock, poultry and eggs, fruits and vegetables, and naval stores. This standardization program provides a well-defined language of trade which facilitates the buying and selling of these commodities.

We are currently in the process of considering changes in our beef grade standards. Last month, we held hearings throughout the country. To date, we have received about 2,900 comments, in addition to the approximately 90 statements that were received in the hearings.

This comment period closes tomorrow. Our wholesale market development program provides research and technical assistance to outdated wholesale distribution facilities.

In our marketing agreements and orders program, we have completed a study on marketing orders for fruits and vegetables. We are also in the planning stages of a similar study for the dairy programs, which will examine in detail our milk marketing ordering system.

Section 32 funds are used to remove burdensome supplies of perishable commodities from regular market channels. Our surplus removal efforts stimulate the market and provide assistance to farmers whose products are in oversupply.

FISCAL YEAR 1983 BUDGET REQUEST

I would like to spend the rest of the time on our 1983 budget request.

In keeping with the administration's efforts to reduce the burden of Government, AMS has engaged in an agency wide effort to control costs and apply sound management principles to achieve improved efficiency and effectiveness.

Of our total 1983 proposed program level of approximately $142 million, only $36 million of our total funds are proposed to be appropriated. Our 1983 budget request continues our movement toward recovery of costs from the beneficiaries of our programs. We feel that, in general, industry will support our efforts to reduce Government expenditures while preserving valuable services for the agricultural sector. We also believe industry-monitored user fee operations are, for the most part, more efficiently operated than appropriated programs.

We are proposing a 1983 appropriation for all of AMS of $36 million, which includes $4.7 million section 32 funds, an $8.8 million reduction from the 1982 appropriation. Of this reduction, $2.5 million will be recovered by user fees. The only increase requested is to cover the restoration of pay costs absorbed in the 1982 budget.

MARKET NEWS

We are proposing a net decrease in 1983 of $1.4 million in our market news program. This consists mainly of a decrease of $1.25

million for printed and mailed market reports and a reduction of *$750,000* for market news reporting.

The proposed $1.25 million reduction in printed and mailed reports will be achieved by charging user fees to cover the printing, mailing, and handling costs of these reports. As I stated earlier, we are studying the most cost-effective means of implementing this user fee concept. We expect to begin user charges by July 1 of this year. Enabling legislation is, however, required for us to charge for cotton and certain tobacco mailed reports. We are proposing this legislation in order to provide uniformity in administering this program.

INSPECTION, GRADING AND STANDARDIZATION

The 1983 budget proposes a net decrease of $2.5 million for the inspection, grading, and standardization activity. The major reductions consist of a decrease of $1.2 million to place the fresh fruit and vegetable and poultry grading programs on a full user-fee basis, a decrease of $223,000 in our food quality assurance effort, a decrease of $81,000 in our livestock and wool standards program, and a decrease of $1.5 million in egg products inspection. The reduction in egg products is contingent upon proposed legislation which would provide the Secretary more discretion in determining the appropriate methods of inspection and in reducing the number of shell egg surveillance visits from four to one per year. This legislation has been submitted to Congress along with similar recommendations for meat and poultry inspection programs.

MARKET PROTECTION AND PROMOTION

We are proposing a net decrease of $829,000 in the market protection and promotion activity, consisting largely of a decrease of $613,000 for the Federal Seed Act program, a decrease of $261,000 for the Plant Variety Protection Act program, a decrease of $23,000 in research and promotion activities, and a decrease of $11,000 in the tobacco export permit program.

WHOLESALE MARKET DEVELOPMENT

We are proposing that the $1,463,000 available in fiscal year 1982 for the wholesale market development program be eliminated. Our pioneering work in the development of major wholesale markets has largely been completed and made available to State and local governments and to industry. The technical information to update obsolete facilities and practices can be used by private consultants for specific projects. Therefore, we feel that Federal assistance is no longer necessary. Our budget proposal does not include funds to cover close out costs.

MARKET SUPERVISION AND ASSISTANCE

A net decrease of $632,000 is proposed for the activity of market supervision and assistance. This reduction would be achieved mainly through efficiencies in our commodity purchase functions.

For the Federal-State Marketing Improvement Program, our budget request proposes its elimination, thereby saving $1 million.

In marketing agreements and orders, we are proposing a net decrease of $941,000 by reducing administrative support for the marketing order program.

SECTION 32

For the section 32 program, we are proposing that we purchase $53 million less in commodities in fiscal year 1983 than in 1982. This proposal would maintain, at the 1982 level, our planned level of purchases from regular section 32 funds, with the decrease coming in purchases from our emergency reserve. In fiscal year 1982, a $53 million surplus removal program, using funds from the emergency reserve, was undertaken to protect producers of meat, raisins, and turkey from excessive losses. In fiscal year 1983, our budget request proposes no surplus removal operations from our emergency reserve funds. Should unforeseen surpluses develop, we will still have available $292 million in our emergency reserve fund for such contingencies.

Mr. Chairman, we really have taken a very close look at all of our programs and feel that the budget that we are submitting to you can stand on its own merits, and we respectfully request your careful consideration.

COTTON CLASSING

Senator COCHRAN. Thank you very much, Mrs. Thymian.

You mentioned the fact that you are closely monitoring cotton classing costs and revenues and that one of your major revenue sources in this program is fees for classing cotton. Recently, I was talking with a cotton farmer who expressed some serious concerns about the qualifications of some who are classing cotton and whether or not there was uniformity and fairness in the cotton classing system. Does your office directly employ the people who are engaged in classing cotton?

Mrs. THYMIAN. Yes, sir, we do. As you know, the art of classing or grading any commodity is a mixture of art and science. We monitor that program very closely. We check the results of the classing that is done by our graders, and we try to act swiftly if there are any deviations from the standards. If you would be willing to have that person contact me directly, I would be happy to see what I can do about the problem.

Senator COCHRAN. I think I may take you up on that.

Is it possible to hire independent, outside graders who you would approve in some manner to do that kind of work on a contract basis?

Mrs. THYMIAN. At this point no, I don't know that we would be involved in anything like that. If the person wanted to do it on his own, that is an entirely different matter.

COTTON USER FEE

Senator COCHRAN. Part of the complaint I received was the information that some, rather than paying the 60 cents per bale charge, as I understand it——

Mrs. THYMIAN. Yes, sir.

Senator Cochran [continuing]. For the classing service, are hiring, training, and employing independent graders to do the classing of the cotton. It was suggested that they tend to come out a little better on the class decisions that are made than those who are smaller operators and can't afford to hire a team of people on a seasonal basis. Is that kind of thing prevalent in the industry?

Mrs. Thymian. No, sir, and I am not aware of the situation you described. One of the roles of the USDA is to be the objective third party, because we can get into a difficult situation if we are trying to favor the buyer over the seller, or the reverse. One of the major concerns in changing the cotton classing program over to user fees was maintaining the integrity of a national program, because U.S. cotton standards are recognized and respected not only in this country but throughout the world. We work very hard to maintain impartiality and fairness within this program.

Senator Cochran. OK, I will take that up with you or someone in your office at a later time.

You indicate that the result, so far, in collecting revenues from ginners and for user fees that have been authorized is mixed at this point, and that some are not paying those fees. What steps are being taken to make those collections?

Mrs. Thymian. We did work out an agreement with most of the ginners to collect the fees from the producers. Any time you have a depressed market, such as the cotton industry is now experiencing, collection becomes a more serious matter than it would be otherwise. One of the things I am doing personally is monitoring collections on a very frequent basis. My Cotton Division people are aware of that, and they are taking the appropriate steps to collect the fees. It still is a little too early to tell whether collections will become a major problem.

WAREHOUSE USER FEE

Senator Cochran. In your statement you indicated that fees for warehouse licenses range from $250 to $1,250. I am curious about the wide range there and how you make the determination of the fee that is assessed for warehouse licenses?

Mrs. Thymian. Well, we make that determination very carefully, because that was one of our concerns in changing the program over to a user fee basis. The decision is based on the licensed capacity of the warehouse.

Senator Cochran. What is the status of issuance of these licenses and the compliance with the warehouse inspection fees?

Mrs. Thymian. To date we have lost 112 licensees, excluding cotton warehouses, mostly among smaller warehouses.

Senator Cochran. When we were writing the farm bill last year, there was a fear expressed that because of these inspection fees, there might be a great exodus out of the program and warehouses would not be federally licensed. What is the situation; have you terminated or suspended many warehouses because of that?

Mrs. Thymian. No, we haven't. One of our major concerns was to protect the integrity of the federally licensed warehouses. We think we have done that effectively by working very closely with the industry. The industry knows it needs to have the participation of its own membership so that the program can continue. If we have too serious a drop out rate, then it becomes a more expensive burden for the warehouses that stay in the program. We think by having a good working relationship with the industry, we are going to be able to maintain that program at its current level.

Senator **Cochran**. There has been a fair amount of controversy surrounding the suggestion of possible changes in the beef grade standards. Where are you in that matter? Do you anticipate making changes any time in the near future?

Mrs. **Thymian**. We did conduct a series of five hearings around the United States at Salt Lake City, Atlanta, Washington, D.C., Des Moines, and Dallas. We had excellent participation by the people who took the trouble to comment during those hearings. The statements were extremely well prepared and stated their positions very well. We are in the process of analyzing about 2,900 written comments. The comment period does not close until tomorrow, which means no decision can be made until we have time to analyze the written transcript from each of the hearings, as well as the written comments. We expect that will take several months because of the extensive nature of the written comments. Then we have approximately four options to pursue. One would be to have no change; leave the grades as they currently are. Another would be to go with the proposal as we published it. Another would be to come out with somewhat less than the proposed changes but use some of the changes that were included in the proposal. Another option would be to make some significant changes in the original proposal, and that would require a longer period of time. At this point, no changes have been decided upon. We are still in the process of analyzing it, and we would be happy to get in touch with you once we have made some decisions.

Senator **Cochran**. I think what I will do is submit some additional questions to you in writing. We have a pretty full array of witnesses this morning. I do have some other questions about your market news reports and the proposed closing or merging of market news offices and how that might affect those who depend upon this information. We will appreciate your responses to those questions for the record.

Again, we appreciate very much your being here and giving us this information.

Mrs. **Thymian**. We will be happy to respond.

Senator **Cochran**. Senator Kasten.

Senator **Kasten**. I have no questions at this time, Mr. Chairman. Thank you.

[Clerk's note: Senator Cochran's questions and AMS's responses begin on page 518.]

FEDERAL GRAIN INSPECTION SERVICE

STATEMENT OF KENNETH GILLES

Senator **Cochran**. We will now hear from Kenneth Gilles, the Administrator of the Federal Grain Inspection Service.

Dr. Gilles, welcome.

Dr. **Gilles**. Thank you, Mr. Chairman.

With me today are Dave Galliart, the Deputy Administrator; John Reeves, the Acting Deputy Administrator for Management; Bradley Heiges, a budget analyst from the Financial Management Division; and J. T. Abshier, Director of the Compliance Division.

I would like to submit my statement and, perhaps to save time, paraphrase it very briefly.

Senator **Cochran**. It is already a part of the record. We hope you would summarize or make any highlights you would care to at this time.

Dr. **Gilles**. Our goal this year is primarily directed to budgetary matters and maintaining the program's integrity.

The highlights of the program really began when the Budget Reconciliation Act of 1981 was passed last summer changing the funding of the agency from 59 percent user fee to 89 percent reliance on user fees. Consequently, we have reorganized, resulting in a reduction of activities and staff in an attempt to make FGIS more cost effective. I think the fact that the industry also is very concerned about maintaining the integrity of the grain inspection system has led us to the position in which we now find ourselves.

REORGANIZATION

Five months have passed since the reorganization plan was approved. We now have about 1,136 employees in contrast to a year ago when we had 1,747. In addition, in an attempt to conserve funds we have furloughed employees at certain locations when work was slow, reduced our travel expenditures by 50 percent, consolidated office space, and in general cut about $7 million from our operating budget for this year.

The importance of maintaining the integrity of the program, of course, is of great concern to us. We have had many visits and inquiries about the Service. We find that many people are not aware that there have been serious problems, and in fact, FGIS has received a number of comments that the agency seems to be performing better since the reorganization.

This, I think, is extremely important, because the commodities we deal with, particularly those in export, represent about 71 percent of the total value of agricultural exports in the Nation. These represent, of course, the grains, the oilseeds and related products. The maintenance of a credible national inspection system clearly emerges when one considers the importance of these matters.

GRAIN STANDARDS ADVISORY COMMITTEE

We now have an advisory committee as required by the Reconciliation Act. This committee has met on two occasions and will meet again on April 14. We feel very confident that the broad spectrum of representation of the members will prove to be a very good base for the exchange of information among the group. During the two meetings, the advisory committee has offered some excellent suggestions. We look forward to working with them closely in the future.

SAFETY

Another concern is that of safety. As one looks at the safety picture over the years, this agency has been very seriously affected on several occasions by elevator explosions. During this past year, one of our employees was killed and seven were injured. Of the 9,500 or so elevators in the country, 21 sustained explosions. This is a very low percentage; but nevertheless, it is a serious event for anyone involved in an explosion. The FGIS safety program will continue to emphasize the safety of our employees and provide information and evidence on the number of grain explosions nationwide.

AGENCY WORKLOAD

On the matter of fees, I will comment very briefly. Our income is based on the volume of grain merchandised by the people we serve. In the past few months, grain exports have been at lower than expected levels. As a consequence of less work, there is less income for the agency. This does cause concern, because there is a fine line separating how far we can go to reduce our work force to accommodate this lower income and still respond to the industry's needs. When one looks at numbers, the export volume for wheat this crop year is up 18 percent, soybeans are up about 26 percent, and corn is down about 26 percent. But in terms of the work, there have been problems, such as poor weather conditions, high river water levels and poor sales. Consequently, we find that we need to adjust our program to a total lower volume of grain being merchandised at the present time.

FISCAL YEAR 1983 BUDGET REQUEST

In fiscal year 1983, we are asking for $49.5 million. Of that amount $44.3 million would be from fees, and $5.2 million from appropriated funds. This represents approximately a $405,000 decrease in appropriated funds compared to last year.

Obviously, it will be necessary to make changes. These changes will involve a reduction in standardization and compliance program activities, but at the same time we plan to increase funding for international monitoring and for the advisory committee.

Relative to our operating reserve, at the time the budget was developed, costs were anticipated to exceed revenues by about $1.7 million in fiscal year 1982. As the year progresses, however, this deficit has continued to increase in spite of major cost-cutting efforts. Today, we anticipate further economic actions may be needed, because we expect to end fiscal year 1982 with little or no operating reserve.

Mr. Chairman, with these rather general comments I would like to conclude my statement and submit the entire statement for the record. Thank you very much.

Senator COCHRAN. Thank you, Dr. Gilles.

INTEGRITY OF THE SYSTEM

Have you had any expressions of concern or complaints from foreign purchasers of U.S. grain, since the user fee system has been implemented?

Dr. **GILLES**. Yes, we have had complaints, but they have not been unusual, and they have not increased substantially.

Senator **COCHRAN**. Do you feel as though the integrity of our inspection service has been adversely affected as a result of this change in funding of the Federal Grain Inspection Service?

Dr. **GILLES**. Mr. Chairman, I think we must look at it in two ways. As far as the export inspections are concerned, definitely not; that phase of the activity is required by law, and we have had no complaints and no problems that we are aware of. There has been a decrease in official inspections in the interior. This is associated both with the decrease in activity in the grain industry and with the user fees that were imposed in October. In the interior, official inspections are down 27 percent, and export inspections are down 9 percent.

Senator **COCHRAN**. You recall we had some hearings down on the gulf coast of Mississippi about the Federal Grain Inspection Service and how to take better advantage of State employees in inspecting. Have you seen a good degree of cooperation from State officials and from others with whom you have traditionally worked to carry out the functions of your office?

Dr. **GILLES**. Yes, sir, I am pleased to report the information that has come to my attention indicates that we are working closely. Last Friday, I spent a day with the California State inspection group. They report things are going quite well.

Senator **COCHRAN**. There was some suggestion in those hearings that there was a duplication of effort. In fact, it was noted that some of the Federal Grain Inspection officials would come around at the same time, but in some of these areas the State employees were doing most of the work. I think one of the witnesses said the Federal employees were just more or less in the way. Have steps been taken to check on that and assure there is an effort being made to avoid duplication of effort or unnecessary interference in the inspection process?

Dr. **GILLES**. We took note of the comments made at the Pascagoula meeting, which you chaired last summer. They were incorporated in our reorganization, and that experience was one of the reasons we reduced our total number of employees. We are continuing to monitor these types of activities which might be duplicative, and if we find they are so, we desire that this work be reduced even further.

USER FEES

Senator **COCHRAN**. I can't recall, but when we were writing the legislation last year to authorize the user fees, was it contemplated that the user fees would fully fund the activities of the Federal Grain Inspection Service? I mention that, because while a substantial amount of your activity will be paid for from user fees, you are still requesting $5 million or so in appropriated funds for next year.

Dr. **GILLES**. I was not privy to the original plans. Some of the plans were developed prior to my appointment. However, it is my understanding it was intended that appropriated funds be used for standardization and compliance activities, both of which were considered to be offering public services. It is the intent of the user fee legislation that the agency recover its supervision and administrative costs for official services from those who benefit from those services.

Senator **Cochran**. Is there any plan to request an increase in the user fees or any change in the collection of those fees?

Dr. **Gilles**. We are closely analyzing and monitoring our revenues and cost data, and yes, we anticipate that there will be an increase in fees across the board, not only to cover administrative and supervisory costs, but also to cover original inspection and weighing costs. For the last several years, this agency's costs have exceeded its revenues, and the difference has been made up from retained earnings. Last year, I believe the costs exceeded the revenues by about $6.6 million, and the year before that about $5.1 million.

ELEVATOR EXPLOSIONS

Senator **Cochran**. I worry about the continued problem of these elevator explosions. You mentioned that in your statement and said that you were going to continue to be involved in safety matters and try to do something to help protect not only your employees, but also others who may be in danger because of the elevator explosions. What are you doing about that? Have you gotten to the bottom of the cause? Is there any hope these can be eliminated?

Dr. **Gilles**. There are several groups working on this particular problem. As far as a cause, you need fuel and the most probable fuel is thought to be grain dust. Dust is usually associated with grain whenever it is handled. Normal abrasion of one kernel against the other will cause some of the fibrous material to be removed. You then need a spark, and that can come from a number of sources. Indeed, research is being directed to containment, so that if sparks occur, they can be suppressed. As far as the agency is concerned, we are cooperating with a departmentwide effort which will be directed toward increasing safety and monitoring elevator explosions. This not only involves FGIS and the Agricultural Research Service, but also the Secretary's Office of Health and Safety.

Senator **Cochran**. What other Federal agencies, if any, are involved in trying to do something about the elevator explosion problem?

Dr. **Gilles**. Primarily the Agricultural Research Service through its research center in Manhattan, Kans., the health and safety office in the Secretary's office, the National Institute of Occupational Safety and Health, the Occupational Safety and Health Administration of the Department of Labor, and the Environmental Protection Agency.

Senator **Cochran**. Senator Kasten, do you have any questions?

Senator **Kasten**. No, Mr. Chairman.

SUBMITTED QUESTIONS

Senator **Cochran**. We have some other questions, Dr. Gilles, but I think for the time being we will reserve our questions and submit them to you in writing for your response. We appreciate very much your being here and cooperating with the committee. Thank you for coming.

Mr. Ford, you will stick around for the next group? Does that come under your jurisdiction?

Mr. FORD. Mr. Chairman, I don't believe it does, but I will be glad to stick around.

Senator COCHRAN. Well, you probably have better things to do. Thank you very much for being with us this morning.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

AGRICULTURAL MARKETING SERVICE

QUESTIONS SUBMITTED BY SENATOR COCHRAN

MARKET NEWS

Question: Your Explanatory Notes indicate you began charging a subscription fee for postage and printing of agricultural food commodity market news reports. Please explain how these funds are collected. Do they come directly to the Agricultural Marketing Service or the Government Printing Office?

Answer: Subscription fees for mailed market news reports would be collected by the Agricultural Marketing Service and maintained in a trust fund account for use by AMS solely for market news reports. We expect to implement this charge effective July 1, 1982.

Question: Are the subscriptions handled by Agricultural Marketing Service personnel?

Answer: Yes, all subscriptions for mailed market news reports would be handled by AMS personnel.

Question: Do you recover one hundred percent of the costs of these reports through subscriptions?

Answer: Yes, one hundred percent of the printing, handling and mailing costs incurred in providing the mailed market news reports would be recovered. There is no charge for collecting the data contained in these reports.

Question: Have some market news reports been eliminated? If so, which ones?

Answer: None of the AMS market information collected is planned to be eliminated as a result of charging subscription fees. Interested parties that do not obtain subscriptions for the mailed market reports would still have access to market information via newspaper columns, television, radio, and automatic telephone answering devices.

Question: You indicated in your statement that legislation is needed to permit subscription fees to be charged for cotton and tobacco mailed market news reports. What is the status of this proposed legislation?

Answer: The legislation needed to permit subscription fees to be charged for cotton and tobacco was submitted to Congress on February 22, 1982. The Bill has been introduced by Senator Helms as S-2209 on March 16; and by Representative Thomas as H.R.-6021 and H.R.-6022 on March 31 for cotton and tobacco respectively.

Question: How much additional would be saved by placing cotton and tobacco market news reports under subscription?

Answer: The FY 1983 budget reflects the total amount to be saved by placing cotton and tobacco market news reports under subscription at $300,000. This amount, which reflects the current cost for postage, printing and handling of cotton and tobacco market news reports, assumes that all those subscribers who currently receive mailed reports will be willing to pay for continuing their subscription. The actual amount recovered will, of course, depend upon the number of subscribers for these reports.

Question: You are proposing to close or merge several market news offices. This has been proposed in prior years and has met with strong opposition in Congress. Which offices would be closed or have already been closed and which would be merged or have already been merged?

Answer: A listing of the market news field offices that will be closed or merged has not been finalized to date. The market news field offices of each commodity group within the AMS market news program are currently being evaluated as part of overall process in determining which offices can be closed or merged with the least impact on the farming community. We anticipate an early completion date on this matter and we will provide your staff with the names of the offices that will be closed or merged immediately after our evaluation is completed.

Question: How many employees would be affected? Will they be transferred, RIFed?

Answer: The programs of AMS are primarily service oriented. With salaries and benefits representing approximately 75 percent of the total agency budget for FY 1983, the personnel issue would have to be addressed. However, the necessity of a reduction in force or the transfer of AMS personnel would be dependent on market news office closings or mergers.

PERIODICALS, PAMPHLETS, AUDIOVISUAL MATERIALS

Question: You have indicated in your Explanatory Notes a proposed decrease in production of periodicals, pamphlets and audiovisual material. Please provide, for the record, a breakdown of these materials and how much savings estimated for each.

Answer: I would be happy to provide that information, Mr. Chairman.
[The information follows:]

FY 1983 Reductions in Periodicals, Pamphlets and Audiovisual Materials

	Savings ($000)
Periodicals, Pamphlets and Audiovisual Material:	
"How-to-Buy Food" Series	$52
Technical Editor Position	36
"Story of Cotton"	3
Reduced pamphlet publishing	14
Total	105

Question: Identify which will be eliminated, reduced, etc.

Answer: The "How-to-Buy Food" series will not be reprinted with AMS funds, and a technical editor position will not be filled. The "Story of Cotton" will not be revised and staff time spent on producing pamphlets will be reduced.

WAREHOUSE LICENSE FEES

Question: You indicated in your statement, Mrs. Thymian, that applicants for United States warehouse licenses are currently paying a yearly fee ranging from $250 to $1,250. Who sets this fee?

Answer: Grain warehouse license fees are set by AMS, based on the cost of providing grain warehouse examination services and an estimate of the number of warehouses participating. Currently, the Commodity Credit Corporation pays one-half of the cost of the U.S. Warehouse Act program and the warehouseman pays the other half, each paying between $250 and $1,250 depending on the capacity of the warehouse.

Question: Why is there such a wide range in these fees?

Answer: Warehouse license fees are determined based on the capacity of the warehouse. Warehouses with smaller capacities pay a lower fee and those with higher capacities pay a higher license fee. We feel that it takes more time to examine larger capacity warehouses than it takes to examine smaller warehouses.

Question: How many licenses were issued in fiscal year 1982?

Answer: From October 1, 1981 through March 1982, we have issued new licenses for 15 cotton, 1 nut, and 54 grain warehouses. This does not include license renewals, for which new licenses are not issued.

Question: Were any licenses terminated or suspended? If so, how many and why?

Answer: During this same period licenses were suspended at 6 grain and one cotton warehouse. Reasons for these suspensions included questionable financial conditions, failure to furnish financial statements and operational irregularities noted during on-site examinations.

Excluding cotton warehouses, a total of 112 license cancellations or terminations also occurred during this time period. Fifty-two of these cancellations occurred as a result of warehouses merging with other warehouses already under Federal or State license. Another 23 terminated their licenses because the business was sold or closed. Twenty three warehouses dropped from the program as a result of the new user fees. The remaining 14 license terminations were due to failure to furnish bond or were cancelled at the warehouseman's request.

BEEF GRADE STANDARDS

Question: You recently held hearings across the country on possible changes in beef grade standards. What was the general reaction to changing beef grade standards by the industry and by the consumers?

Answer: General reaction has ranged from acceptance with reservations or recommending changes for improvement, to complete opposition. Some comments have suggested alternative proposals ranging from a call for a new grade to identify leaner beef to a return to the standards in effect before 1976.

Question: Will some changes be forthcoming?

Answer: Any changes in beef grade standards will depend on our evaluation of the public hearing testimony and the comments received. We are currently in the process of evaluating these comments and transcripts.

Question: How soon do you anticipate making such changes?

Answer: To date we received approximately 2,900 written comments. Several months may be required to give all the comments and public hearing testimony full consideration before making a final decision on grade changes.

EGG PRODUCTS INSPECTION

Question: Legislation will be needed to change the egg products inspection. What is the nature of the change?

Answer: The Egg Products Inspection Act amendments would eliminate the continuous inspection requirement of some egg products processing operations, such as pasteurization and drying. Egg breaking operations would still be continuously inspected. The proposed legislation would also reduce the required number of shell egg surveillance visits from four to a minimum of one per year. Under the present law each shell egg packer selling to the ultimate consumer is required to be visited four times per year to determine the disposition of certain types of undergrade eggs which are potential health hazards.

Question: What is the status of such legislation?

Answer: Amendments to the Egg Products Inspection Act were submitted to the Congress by the Secretary on February 18. The legislation has been introduced along with similar amendments for meat and poultry inspection, as S. 2348 and H.R. 6062.

Question: What is the associated savings with this change?

Answer: This change is estimated to save $1,506,000.

FEDERAL SEED ACT/TITLE III

Question: You mentioned in your statement that you are negotiating with the Animal and Plant Health Inspection Service (APHIS) to transfer responsibility for testing of imported seed. What is the Animal and Plant Health Inspection Service's reaction to this possible transfer?

Answer: The Animal and Plant Health Inspection Service is supportive of this proposed transfer of responsibility.

WHOLESALE MARKET DEVELOPMENT

Question: The Wholesale Market Development program is designed to enhance the marketing of agricultural products in the United

States by increasing marketing efficiency and/or decreasing marketing costs and by evaluating distribution of agricultural products within an urban area and from the farm to urban areas. These activities are to be eliminated in fiscal year 1983. How do you justify elimination of this program?

Answer: Our work in the development of major wholesale markets has for the most part been completed and the technical information needed to modernize obsolete facilities and practices is available to state and local governments and to industry. If marketing costs continue to increase, competition should encourage the private sector to seek cost reducing alternatives. The larger food manufacturing and distribution firms, and major city governments have research departments or planning and development commissions that may have or may be able to obtain the expertise necessary to take over the research functions performed in AMS.

Question: You mentioned in your statement that your budget proposal does not include funds to cover closeout costs. How will these costs be covered?

Answer: If the wholesale market development program is eliminated we will work with the Department to cover close-out costs.

MILK MARKETING ORDERS

Question: I understand you are studying all the dairy programs, including the milk marketing order program, as mandated in the 1981 Farm Bill. When will this study be completed?

Answer: Congress has specified that the study be completed by December 31, 1982.

DAIRY SURPLUS

Question: To what extent, if any, is the Agricultural Marketing Service involved in the dairy surplus problem?

Answer: Surplus dairy products are purchased by USDA under the Dairy Price Support Program operated by the Agricultural Stabilization and Conservation Service. All products purchased are inspected and graded by employees of the Agricultural Marketing Service. The total workload of the dairy grading program is expected to increase approximately 10 percent from last year's record high level due to expected increases in ASCS purchases of surplus dairy products. In conjunction with other USDA agencies, AMS is currently seeking ways of working with industry to promote increased consumption of dairy products.

QUESTIONS SUBMITTED BY SENATOR ANDREWS

MARKET NEWS USER FEES

Question: You are proposing user charges for your market reports. How many reports do you send out presently?

Answer: During FY 1981, approximately 12.3 million printed market news reports were distributed.

Question: Who gets these reports?

Answer: Market news reports are disseminated to all groups and individuals that request printed market news reports including producers, buyers, sellers, processors, chain stores, and consumers.

Question: What would the average charge be?

Answer: The various commodity groups within our market news program are currently developing the average cost associated with postage, printing, and handling of market news reports on a subscription basis. We anticipate an early completion date and will provide the Committee with this information as soon as it is available.

WAREHOUSE EXAMINATION

Question: When warehouse inspection fees were first proposed there was a great deal of concern expressed over the effect these fees would have on participation. What is the incentive for a warehouse to continue to have U.S. inspection?

Answer: The incentives for a warehouse to continue to operate with a U.S. Warehouse Act license are the same as they were before we began charging annual license fees. The ability of a warehouseman to issue a U.S. Warehouse receipt significantly enhances the value to the farmer of storing his crops in a licensed warehouse. The warehouse receipt provides a strong measure of assurance to the farmer and to those lending the farmer money based on the value and safety of those stored crops that the commodities represented by such a receipt are reasonably safe from loss. For a warehouseman a license translates into more storage business.

Question: What do you expect the drop-out rate to be because of the imposition of these fees?

Answer: To date we have had 112 warehouses drop out of the program, excluding cotton warehouses. Of this total, 23 warehouses indicated that they were dropping their licenses due to the user fee charge. Most of those dropping their licenses were smaller warehouses.

QUESTIONS SUBMITTED BY SENATOR EAGLETON

PBS PROJECT

Question: Your statement indicates that you have initiated a pilot project with PBS to air market reports over television. Please provide additional details concerning this arrangement, how many stations are now participting and where they are located?

Answer: The Agricultural Marketing Service and the Public Broadcasting Service have initiated a demonstration project for the delivery of low cost, timely farm market news in five locations around the country.

The five public television stations participating in the test are KRMA Denver, Colo., WEDU Tampa, Fla., KMTF Fresno, Calif., KOZK Springfield, Mo., and Prairie Public Television in North Dakota.

Under the agreement, these five stations will receive information via telephone lines from AMS' existing market news service. The information will be converted to a broadcast signal at each station, then aired on a text channel of the public television closed-captioning system. Viewers will be able to read the news on their televisions by using a closed-capitioning decoder.

Increasingly, the livelihood of American farmers depends on access to current agricultural marketing information. The new PBS service will provide these individuals with up-to-the-minute reports as readily available as their television set connected with a captioning decoder.

Question: Do you intend to continue this effort in FY 1983 and is it expected to be expanded? If expansion is contemplated, what stations are expected to pick it up?

Answer: Ultimate success of the service will depend on the use of the information by the agricultural community and the level of financial support received in the form of station memberships and business contributions from farmers and others who utilize the service.

If the pilot program is a success, the farm market news service will be continued and may eventually be distributed via satellite to allow any number of public television stations to participate.

AMS USER FEES

Question: Please provide a table of all commodities for which you now provide service for a fee, including in it the services rendered for each commodity and the percentage of such service covered by fee and by appropriation.

Answer: I would be happy to.
[The information follows:]

Agricultural Marketing Service
FY 1983 User Fee Funding

	Percent of Service Covered by	
	Appropriation	Fee
1. Egg Products - provide continuous inspection at plants manufacturing liquid, frozen or dried egg products; control disposition of "restricted eggs"; inspect imported eggs products; test egg product residues	92.7	7.3
2. Warehouse Inspection - license public warehousemen storing agricultural products; license weighers, graders and samplers, and conduct unannounced examinations of the licensed warehouses	5.2	94.8
3. Tobacco - provide grading service for a fee at designated auction markets and voluntary requests for the services	--	100
4. Meat Grading and Certification - providing grading services for beef, lamb, veal, and calf; certify meat and meat food products for compliance with Federal and non-Federal specifications	--	100
5. Processed Fruits and Vegetables - apply U.S. grade standards to processed fruits and vegetables; certify fruits and vegetables for compliance with Federal and non-Federal specifications	--	100
6. Fresh Fruits and Vegetables - provide grading services for fresh fruits and vegetables and special products for shipment to fresh market, export channels, and certify adherence to contract specifications for institutional and government purchases and certification of imports	--	100
7. Dairy Grading - provide grading and inspection services to the industry for milk and milk products; also perform certification work	--	100
8. Livestock Futures Grading - provide grading and acceptance to settle futures contracts for the Chicago Mercantile Exchange and the Mid-American Commodity Exchange	--	100

	Percent of Service Covered by Appropriation	Percent of Service Covered by Fee
9. Seed Inspection - certify seed lots being exported	--	100
10. Cotton Classing - provide for the classing of cotton on a voluntary fee for service basis	15.1	84.9
11. Naval Stores - provide for the inspection and grading of turpentine and naval stores products	--	100
12. Poultry and Egg Grading - provide grading and acceptance services for poultry and shell eggs	--	100

COTTON CLASSING REVENUES

Question: Your statement indicates that current low cotton prices will impact on the revenues you will receive from selling cotton samples. Will this decreased revenue impact on your ability to carry out your program in any way?

Answer: The decreased revenue from the sale of cotton samples will be offset to some degree by classing about 500,000 more samples than planned. However, we are making the appropriate program changes necessary to operate within the funds available.

WAREHOUSE EXAMINATION

Question: Last year the General Accounting Office recommended a number of changes in the warehouse examination and financial data review procedures which would strengthen protection given grain depositors. Please describe what, specifically, has been done to implement the GAO recommendations?

Answer: AMS published proposed regulations in the Federal Register on December 7, 1981 which require licensed warehousemen to provide financial reports and information adequate to provide a basis for a predictive formula.

Question: Has the Department developed or made any effort to develop a predictive formula for warehouse bankruptcies?

Answer: AMS has made plans to test Dr. Siebert's predictive formula which was mentioned in the GAO report. Using current and past financial information from files and depending on the results of the tests, we will review the formula to determine its usefulness.

Question: The Committee directed AMS to "explore means by which the Department can be of assistance to warehouses experiencing financial difficulty and to report to the Congress on this." What has been done to comply with this directive?

Answer: AMS is discussing with the Agricultural Stabilization and Conservation Service legal and operational steps that could be taken to assist warehouses experiencing financial difficulty. The Secretary has appointed a committee within the Department to furnish policy direction for such assistance.

Question: Your statement indicates that the CCC is currently reimbursing AMS for one-half the cost of the U.S. Warehouse examination program. Is this policy to continue in FY 1983 and, if not, what will be the increased cost to the warehouses?

Answer: There is no indication that CCC will not continue to share in the costs of the program during fiscal year 1983. The agreement between AMS and ASCS appears open ended. If at any time it should be terminated, then the user fee cost to warehousemen would increase by 100 percent.

BEEF GRADE STANDARDS

Question: Please provide a summary of the comments received on the proposed changes in beef-grade standards. How many comments were in support of the specific proposal and how many were opposed?

Answer: We are now in the process of summarizing and evaluating all the comments and public hearing testimony in order to give them full consideration before reaching a final decision on grade changes. However, because of the large amount of information contained in the approximately 2,900 written comments received by us, the decision process may require several months. A cursory examination of the comments shows that many of them are not completely in support of or against the proposed changes. Some comments indicate only partial approval or disapproval of the proposed changes and so a strict tally of comments for or against the proposal will probably not be possible.

WHOLESALE MARKET DEVELOPMENT

Question: Please provide a list of the current locations where AMS is supporting wholesale market development activities.

Answer: [Wholesale market development activities are currently underway in the following locations:]

1. Asheville, North Carolina - Plan and promote improved farmers' market and wholesale distribution facilities.

2. Pee Dee, South Carolina - Evaluate and plan regional food distribution facilities.

3. Raleigh, North Carolina - Plan improved wholesale food distribution facilities.

4. Southern New Jersey - Plan and promote improved wholesale food marketing facilities.

5. Charlotte, North Carolina - The North Carolina General Assembly and the City of Charlotte have jointly funded a proposed new farmers' market to serve the region.

6. Boston, Massachusetts - Long-rang expansion plans are being made

to alleviate operating problems facing the New England Produce Center.

7. Pittsburgh, Pennsylvania - City officials are implementing planned improvements in terminal facilities which house a large segment of the produce industry and will return over $.5 million annually in revenue to the city when renovated.

8. Richmond and Lynchburg, Virginia - Initiate a study on the need for new farmers' markets.

Question: How much would be needed to cover close-out costs of existing wholesale market development activities?

Answer: It is estimated that close-out costs for program personnel would amount to $850,000.
A detailed summary of these costs follows:

Estimated Wholesale Market Development Close-Out Costs
(Dollars in Thousands)

Salaries	$199
Benefits	20
Severance/Discontinuance Pay	465
Lump Sum Leave Liability	106
Unemployment Compensation	24
Travel	6
Rent, Communication and Utilities	25
Contractual Services	4
Supplies	1
Total, Estimated Cost	850

These costs would not cover completion of projects which are scheduled to be finished after the close-down date.

Question: Are you under any legal obligation which would require you to pay close-out costs of these projects? If you have received an OGC opinion on this, please provide.

Answer: We are not under any legal obligation that would require us to pay close-out costs on these projects. However, we are required to pay the costs of terminating employees and closing offices.

Question: If the Congress were to continue this program at the current funding level in FY 1983, what locations would be included in wholesale market development activities?

Answer: If the Congress were to continue this program at the current funding level in FY 1983, the market facility studies in southern New Jersey; Boston, Massachusetts; Richmond and Lynchburg, Virginia; and Charlotte, North Carolina, could be continued with the latter four being completed. Since data collection for the comprehensive New Jersey study will be completed, another wholesale market study would likely be initiated, possibly in Phoenix, Arizona.

Question: Please provide a list of all market orders currently administered by AMS, the dollar amount of appropriated funds used in support of each order and the number of producers covered by each order.

Answer: Section 32 funds authorized under 7 U.S.C. 1392b are used by the Department for supervising adopted market agreement and order programs and for public hearings and referenda to determine producer sentiment relative to new programs and revision of current programs. For FY 1982, the appropriation to AMS for administering all market orders is $5,670,000. Because personnel are cross-utilized in the administration of marketing orders and since we do not capture our cost data except in the aggregate, we do not have the data to allocate costs between marketing orders.

I will provide for the record listings for both milk and fruit and vegetable marketing agreements and orders currently administered by AMS, along with the respective number of producers.
[The information follows:]

Milk Market Orders
Number of Producers 1/

Alabama - West Florida	1,000
Black Hills	78
Central Arizona	169
Central Arkansas	914
Central Illinois	303
Chicago Regional	18,684
Eastern Colorado	788
Eastern Ohio - Western Pennsylvania	6,147
Eastern South Dakota	497
Fort Smith (combined with Central Arkansas)	
Georgia	1,835
Great Basin	665
Greater Louisiana	600
Indiana	2,869
Inland Empire	333
Iowa	3,747
Kansas City	1,351
Lake Mead	45
Louisville-Lexington-Evansville	2,314
Lubbock-Plainview	39
Memphis	559
Michigan Upper Peninsula	111
Middle Atlantic	7,144
Nashville	1,061
Nebraska-Western Iowa	1,847
Neosho Valley	3
New England	6,951
New Orleans-Mississippi	1,503
New York-New Jersey	17,690
Ohio Valley	5,264
Oklahoma Metropolitan	1,822
Oregon-Washington	982
Paducah	133
Puget Sound	1,153
Red River Valley	101
Rio Grande Valley	135
St. Louis-Ozarks	3,234
Southeastern Florida	187
Southern Illinois	1,411
Southern Michigan	6,473
Southwestern Idaho-Eastern Oregon	371
Tampa Bay	239
Tennessee Valley	1,490
Texas	3,524
Texas Panhandle	127
Upper Florida	146
Upper Midwest	15,597
Western Colorado	63
Wichita	325
Total, Producers	122,024

1/ Based on December 1981 data.

Fruit and Vegetable Marketing Agreements and Orders
Number of Producers 1/

Florida citrus	14,000
Texas citrus	2,900
California-Arizona navel oranges	4,059
California-Arizona valencia oranges	3,830
California desert grapefruit	250
California-Arizona lemons	2,400
Florida limes	160
Florida Indian River grapefruit	2/
Florida Interior grapefruit	2/
Florida avocados	190
California nectarines	700
California peaches	3/
California plums	2,650
California Bartlett pears	3/
Georgia peaches	100
Colorado peaches	200
Washington peaches	450
Washington apricots	210
Washington sweet cherries	1,200
Washington-Oregon prunes	450
California Tokay grapes	400
Winter pears (3 Pacific States)	1,500
Hawaii papayas	180
Cranberries (10 States)	900
Tart cherries (8 States)	2,600
Washington-Oregon Bartlett pears	2,000
California olives	1,300
Idaho potatoes	2,000
Washington potatoes	400
Oregon-California potatoes	464
Colorado potatoes	395
Maine potatoes	1,281
Virginia potatoes	300
Idaho onions	250
Texas onions	180
Texas tomatoes	40
Florida tomatoes	185
Florida celery	26
Texas lettuce	47
Texas melons	76
California almonds	7,091
Oregon-Washington filberts	1,081
California walnuts	9,000
Spearmint oil (6 Western States)	250
California dates	143
California raisins	4,800
Hops (4 Western States)	224
California prunes	2,000
California desert grapes	75
Peanut Agreement	65,300
Total, Producers	138,237

1/ Based on FY 1980 data.
2/ Included in Florida citrus.
3/ Combined with California plums.

FRUIT AND VEGETABLE MARKETING ORDER GUIDELINES

Question: The Department recently completed a comprehensive study of the marketing order system and made various recommmendations regarding possible changes. Please provide a list of those recommendations and an explanation of what is being done to implement them.

Answer: On January 25, 1982, the Department issued Guidelines for Fruit, Vegetable, and Specialty Crop Marketing Orders. These guidelines are intended to provide boundaries within which all present and future marketing orders will operate. The Guidelines will apply to each marketing order on a case-by-case basis.

At the present time, USDA is working closely with industry to assure that the goals of the Guidelines are reached as soon as possible. We are asking each administrative committee to address the Guidelines that apply to its program, and set a schedule for implementation.

Following is a brief outline of the Guidelines:

Producer Allotment Programs - Must eliminate barriers to entry.

Market Allocation Programs - Programs must allow individual incentive and product innovation and should not be used to inhibit long-run market expansion or to encourage or continue chronic over-production.

Prorates - Industry should consider changes in the present system that would permit greater intraseasonal flexibilities for individual handlers while protecting the viability of the program.

Reserve Pools - Recommendations for establishment of a reserve should include estimates of the ultimate disposition of the reserve.

Quality Provisions - Should not be used as a form of supply control, and should permit marketing of off-grade/size product within the production area or establishment of a minimum quantity exemption.

Bloc Voting - USDA strongly encourages cooperatives to refrain from bloc voting.

Committee Tenure - Committee membership tenure must be limited.

Periodic Referenda - Should be conducted to determine whether producers want to continue the marketing order programs for their respective commodities.

Section 32

Question: Your statement indicates that 20 percent of the Section 32 funds are set aside for use to fund Direct Purchases, Marketing Agreements and Orders and the Emergency Reserve. Please provide additional details as to how much is set aside for each of those three categories and the purpose of each category.

Answer: Mr. Chairman, I will provide that information for the record.
[The information follows:]

FY 1983 AMS Section 32 Funds

Direct Purchases - $365,400,000:

This category represents purchases for surplus removal of perishable, non-basic commodities such as fruits and vegetables, poultry, and meat. These commodities are donated to the domestic feeding programs of the Food and Nutrition Service. This activity is authorized under Section 32 of the Act of August 24, 1935, as amended (7 U.S.C. 612c).

Marketing Agreements and Orders - $4,729,000:

Section 32 funds are used by the Department for supervising adopted marketing agreement and order programs (MA&O) and for public hearings and referenda to determine producer sentiment relative to new programs and revision of current programs. Marketing agreements and orders are formal agreements among producers specifying the amount and quality of a commodity that will be marketed. These orders and agreements help to stabilize prices, and benefit producers and consumers by establishing and maintaining orderly marketing conditions. The use of Section 32 funds for the MA&O program is authorized by (7 U.S.C. 1392b).

Section 32 Emergency Reserve - $291,827,000:

Section 32 emergency reserve funds are used to remove surplus agricultural products from the normal channels of trade and commerce. This may be accomplished by (1) conducting buying operations of surpluses and donating the commodities to FNS for use in their domestic feeding programs or (2) diverting the surpluses from normal channels into new ones. This activity is authorized by Section 32 of the Act of August 24, 1935 (7 U.S.C. 612c).

FOOD QUALITY ASSURANCE

Question: You have indicated that there will be a $223,000 decrease in your food quality assurance efforts. What will be the specific impact of this reduction on your current program.

Answer: The impact of this program reduction will be minimal. When USDA was first given responsibility for coordinating government-wide food specifications, there was a great deal of work to do in reviewing and standardizing all government food specifications. This initial phase of our effort has been largely completed. We are now ready to enter the specification maintenance and monitoring phase of this effort, a phase which we feel will require fewer resources.

FEDERAL GRAIN INSPECTION SERVICE

QUESTIONS SUBMITTED BY SENATOR COCHRAN

ADVISORY COMMITTEE

Question: Please provide, for the record, a listing of the individuals on the Advisory Committee (12 appointed by the Secretary) where they are from and which industry they represent.

Answer: Committee members are:

Jay Anderson, grain farmer, East Bernard, Texas
James B. Boillot, Director, Missouri Department of Agriculture, Jefferson City, Mo.
Ray W. Chartier, General Manager, Farmland Industries, Dallas Center, Iowa
David E. Edmiston, Chief, Grain and Commodity Inspection, California Department of Food and Agriculture, Sacramento, California
Paul C. Hughes, Executive Vice-President and General Manager, Farmers Soybean Corp., Blytheville, Arkansas
Harold E. Hudgins, Export Coordinator, Garnac Grain Co., Inc., Kansas City Mo.
Thomas L. Irmen, General Manager and Partner of the Grain Group, The Andersons, Maumee, Ohio
Donald M. Mennel, Chairman of the Board, The Mennel Milling Co., Fostoria, Ohio
Paul E. Pawlisch, President, Malting Barley Improvement Association, Milwaukee, Wis.
Jim R. Billington, President, National Association of Wheat Growers, Altus, Oklahoma
Michael Vehle, Vice-President, Shanard, Inc., Mitchell, South Dakota
Norman D. Weckerly, farmer and owner of Hurdsfield Grain, Hurdsfield, North Dakota

Question: How often does this Committee meet?

Answer: We expect the Committee to meet four times a year. Meetings were held in the Washington, D.C., on November 13, 1981, and January 27, 1982. The next meeting is scheduled for April 14, 1982.

Question: Who pays for the expenses of this Committee?

Answer: The expenses for the Advisory Committee are paid by appropriations.

FEDERAL GRAIN INSPECTION SERVICE

Question: Since the Federal Grain Inspection Service is eighty-nine percent funded by user fees in fiscal year 1982, what activities of the Federal Grain Inspection Service are financed from appropriations?

Answer: Compliance and standardization activities, the Grain Standards Advisory Committee and the international monitoring staff are all funded by appropriations.

Question: Will this funding arrangement apply for fiscal year 1983.

Answer: Yes. Under the Omnibus Budget Reconciliation Act of 1981, appropriations are authorized through fiscal year 1984.

REACTION TO USER FEES

Question: What has been the industry's reaction to the new user fee provisions?

Answer: Generally, I think it can be stated that industry as a whole is not particularly enamored by user fees. However, the only objective information available to assess industry's reaction to the new user fees is the number of inspections performed.

During the first 5 months of this fiscal year, there has been a 27 percent decrease in the requests for inspections performed by official agencies compared to a similar period last year. There also has been a 9 percent decrease in the voluntary inspections performed by FGIS during the same time period. This reduction in the demand for services is attributed in part to the imposition of the new user fees. However, current market conditions may also be responsible for a portion of this decrease.

Question: What has been the reaction from importing nations since the inception of user fees?

Answer: We have received no comment from importing nations concerning user fees per se. The only comment related to user fees concerned FGIS' reorganization. The head of one European country's inspection service asked if the effectiveness of FGIS has been altered.

Question: What has been the reaction from the official agencies?

Answer: Almost without exception, official agencies have reacted negatively to user fees. Most feel the additional costs will sharply curtail requests for official inspection services. Some have criticized user fees as excessive, while others are opposed to any additional costs during a period of relatively slow grain movement.

As a result of user fees, both official and unofficial inspections are being provided at six locations where previously only official inspections were provided. This is being accomplished by separate ownership arrangements. Other official agencies have indicated interest in this arrangement. Unofficial inspections can be provided at a lesser cost without user fees and will allow the unofficial inspection service to operate without regulations and instructions while having benefits of using guidelines, equipment, and standards developed by the official service.

Question: Have official inspections of the Federal Grain Inspection Service decreased since the implementation of user fees? How much?

Answer: Yes, inspections have decreased since implementation of the new user fee provisions. Total inspections decreased 25.5 percent for the period of October 1981 to February 1982 compared to the same period last year. For official agencies, inspections decreased 27.0 percent. For the Federal Grain Inspection Service, there were 9.0 percent fewer inspections. Most of the decline in inspections can be attributed to user fees, but the downturn in the movement of grain must also be considered.

INCREASE IN USER FEES

Question: I have seen reports, and you alluded to the possibility in your statement, that the Federal Grain Inspection Service may raise official weighing, inspection and supervision fees, because costs currently are running ahead of revenues for the agency. Are you anticipating revision of these fees?

Answer: Costs for almost all Grain Standards Act programs are exceeding revenues at this time. Therefore, we are exploring several possible changes in the delivery of program services to decrease costs and in the fee structure to increase revenues. We will discuss these proposed changes at the next meeting of the Federal Grain Inspection Service Advisory Committee.

Question: How long would it take to institute a change in the user fee schedule?

Answer: Under normal rulemaking procedures, it takes approximately 6 months.

Question: Does your current fee schedule represent your program costs?

Answer: No, costs for most programs are currently exceeding revenues.

Question: How much do you carry in reserve? Is this sufficient to cover any anticipated costs?

Answer: As of February 20, 1982, the total U.S. Grain Standards Act retained earnings were approximately 5.5 million dollars. At the current rate of loss this level of retained earings will be sufficient to cover costs not recovered by revenue generated from fees through the end of fiscal year 1982 and into the first month or two of fiscal year 1983.

GRAIN DUST

Question: I understand there is a growing problem of grain dust in shipments bound for foreign customers. Apparently, foreign buyers are getting increasingly disturbed about this excessive dust in the United States grain, and have asked the Federal Grain Inspection Service to initiate a study of the problem. Is this a problem?

Answer: Yes. In our travels overseas, in our meetings with foreign visitors, and in discussions with the Advisory Committee, this problem has been mentioned. Wheat buyers, in particular, complain of the dust in their shipments.

Question: Has a study been initiated?

Answer: No. We are, however, continuously looking at ways to improve the quality of grain. The official standards do not limit the amount of dust or dockage that may be in wheat, but they do require that the amount of such material be accurately stated on the official inspection certificate.

Question: What is the status of such a study?

Answer: Although no study has been initiated, we have recently completed an informal survey of export elevators to determine the number that reintroduce dust into the grain stream. The preliminary results disclosed that 66.6 percent are removing the dust and not returning any part to the grain flow. Some grain firms also are reviewing the problems associated with dust in grain, and several have instituted programs where dust is now collected, pelletized, and sold as feed.

INTERNATIONAL MONITORING PROGRAM

Question: Your explanatory notes indicate the existing international monitoring function will become a separate staff. Why is this?

Answer: Because we believe that the international monitoring functions are important. It has been our experience that when these functions are assigned to other units within the Agency, they have to compete with other activities and may not receive adequate attention.

It would also provide continuity when responding to requests and inquiries from the Agricultural Attaches overseas. Rather than having several different people performing certain tasks, it is more productive to have a separate staff.

Question: What will the responsibilities of this staff be?

Answer: The major responsibilities will continue to be investigating foreign complaints, monitoring in-transit fumigation studies, reviewing the handling and distribution facilities in importing countries to determine grain quality needs, and comparing inspection and weighing methods for suggested improvements.

Question: Will you be hiring new personnel for this staff?

Answer: No. The staff will consist of four employees presently engaged in international monitoring activities as a large part of their current functions.

Question: To what extent does the Federal Grain Inspection Service get involved with foreign complaints and injuries?

Answer: This depends on the nature of the inquiry. Some inquiries require only an explanation of FGIS procedures for determining a grade factor. If an official inquiry has been requested through the Agricultural Attache, the loading logs will be reviewed and, if it is a complaint on quality, the file samples will be examined by the Board of Appeals and Review, which is the final authority for grade factor determinations within FGIS. In most instances these complaints can be answered on the basis of these two sources.

In extreme cases where there may be an immediate economic loss resulting from a discrepancy concerning the quality or weight of a U.S. grain shipment, a FGIS representative may travel overseas to examine the cargo.

Less immediate inquiries may be handled by a FGIS team visiting a particular country in conjunction with the market development cooperators, or independent of these groups, if it is believed conditions warrant a team visit to respond directly to a complaint.

Question: Do your activities in any way overlap with those of the Foregin Agricultural Service?

Answer: No. The responsibilities of the Agricultural Attaches and Counselors do not include grain inspection and weighing matters. Ours is a quality- and quantity-determining function; and when these representatives need assistance in this area, we cooperate with them. Likewise, when we need assistance in obtaining information from overseas we request the Foreign Agricultural Service for help in obtaining it. This relationship has, in our view, worked very well.

COMPLIANCE ACTIVITIES

Question: You have proposed a decrease in your compliance program operations to comply with the President's Economic Recovery Plan. Will you please identify for us the activities and responsibilities that will be eliminated, decreased, or transferred?

Answer: We have already taken steps to transfer to the official agencies some of the responsibility for the testing procedures for licensing official inspection personnel. On-site reviews for redesignations will be consolidated with other program reviews and investigations. Preliminary investigations will continue to be conducted by the Compliance Division, but some of them may be transferred to the Office of Inspector General if conditions warrant.

GRAIN ELEVATOR AND MILL EXPLOSIONS

Question: Last year, in the Senate Report on the fiscal year 1982 appropriation bill (97-248), the Committee directed the Department to continue support of the scientific investigation of grain elevator and mill explosions by the National Academy of Sciences. How many explosions were there in 1981? In 1982?

Answer: There were 21 reported dust explosions in 1981. There have been 2 grain dust explosions in 1982. Producers in Corpus Christi, Texas, had a dust explosion in the car dump area which is located 150 feet away from the elevator. Continental Grain at Reserve, Louisiana, had a dust explosion in a dust filter located on the dock away from the elevator.

Question: How many deaths and how many injuries? Please provide the details of each explosion for the record.

Answer: There were 13 deaths and 62 injuries in 1981.

[The information follows]

Calendar Year 1981
Reported Grain Dust Explosion Incidents
Grain Handling Facilities

United States

No.	Facility & Location	Date	Deaths	Injuries
1	Gibson Co. Farm Bureau Co-Op Princeton, IN	1/3	0	1
2	Peavey Co. Alton, IL	2/4	0	1
3	Southeast Nebraska Co-op Beatrice, NE	2/27	0	3
4	South Soo Grain Co. South Sioux City, NE	3/19	0	0
5	Conagra, Inc. Amboy, IN	4/7	0	0
6	Corpus Christi Public Corpus Christi, TX	4/7	9	30
7	Bellwod Farmers Co-op Bellwood, NE	4/7	2	1
8	Goldkist Feed Mill Valdosta, GA	4/7	0	0
9	Beverly Elevator Co. Beverly, NE	4/15	0	0
10	Pillsbury Co. Roberts, IL	4/15	0	0
11	Bob Gottsch Feed Yard Elkhorn, NE	4/30	0	3
12	Inola Elevator Inola, OK	5/21	0	5
13	Perma Delta Rice Mill Greenville, MS	8/17	0	1
14	Pendleton Grain Grower Pendleton, OR	8/21	0	1
15	Louisberg Grain & Feed Sterling, CO	9/4	0	5
16	LaPorte Coop Elevator LaPorte City, IA	9/9	0	1
17	Mid America Commodities Farmer City, IL	9/24	0	2
18	Madison Farmers Elevator Madison, SD	9/24	0	4
19	Garnac Elevator San Diego, CA	10/6	0	0
20	Gold Proof Elevator (Div. of Ind. Gr.) Louisville, KY	10/8	0	1
21	Del-Mar Industries, Inc. Longview, TX	11/6	2	3
		TOTAL	13	62

Question: What are the findings and/or results of the investigation directed by the Committee? (FGIS has yet to contract with National Academy of Sciences to continue this work).

Answer: Initially, this report was to be released in the fall of 1981 and then scheduled for April 1982. However, at the Academy's request the report was then rescheduled for August 1982.

Question: Have you been able to come up with some information that will offer some hope for developing a strategy or methodology for preventing further explosions.

Answer: In 13 out of 14 elevator explosions that the National Academy of Sciences investigated, the initial explosion originated in one of the elevator legs. The trade has developed an explosion--suppressing device that can be installed on an elevator leg. These devices were installed in one export elevator last month. A number of other export elevators are in the process of installing these devices in their facilities.

OFFICE OF THE SPECIAL COORDINATOR FOR GRAIN ELEVATOR SAFETY and SECURITY

Question: Last year, the Federal Grain Inspection Service eliminated the Office of the Special Coordinator for Grain Elevator Safety and Security. The Subcommittee suggested in its Report 97-248 that this function be reestablished at the Department level. Has this been done?

Answer: A similar function is being established.

Question: Please provide details for the record.

Answer: A position on safety has been established by the Secretary in his office. This position, the Grain Elevator Safety Advisor, will have responsibility for all safety matters within the Department. The Secretary has also established a Grain Storage and Processing Safety Committee as part of the effort to address the issue of grain elevator explosions. This Committee will be chaired by the Executive Assistant to the Secretary with Assistant Secretaries serving as members.

A coordinating subcommittee will be established consisting of appropriate agency heads and chaired by th FGIS Administrator. The Grain Elevator Safety Advisor will serve as the Executive Secretary to the subcommitte.

FLOODING OF GRAIN ELEVATORS

Question: It is my understanding that some grain elevators in the Midwest have had to close because of high waters or floods. Have you had an opportunity to investigate this situation?

Answer: In an effort to obtain as much information as possible about unusual conditions that may influence the quality of grain, we contacted the National Grain and Feed Association to assess the impact of high waters and floods in the Midwest this spring.

Question: Has there been any damage?

Answer: Yes, there has been some damage, but nothing in excess of what is normally experienced.

Question: Please provide details of these for the record.

Answer: Based on information received from the National Grain and Feed Association, damage to grain elevators due to high waters and floods has been limited to delays in loading barges and water seepage in basements. High water levels at some facilities have made it impossible to position barges under loading spouts resulting in temporary delays. However, these delays and damages are not uncommon during wet seasons and have not significantly affected the grain industry.

QUESTIONS SUBMITTED BY SENATOR ANDREWS

USER FEES

Question: As you have pointed out the Omnibus Budget Reconciliation Act of last year requires you to charge user fees to recover administrative and supervisory costs associated with official inspection and weighing of grain. What has the effect of these user fees had on the number of discretionary inspections and weighing? Has there been or do you expect a large decrease?

Answer: The number of official discretionary inspections performed during the first 6 months of FY 1982 were down 27.0% from the first 6 months of FY 1981, 1,889,503 to 1,387,816. This decrease may be due, in part, to the user fees implemented as of October 1, 1981. This may also, in part, be due to a 3.6% decrease in export volume of grain for this period compared to last year, and a 32% reduction in mandatory inspections of export grain by official agencies during this period.

Discretionary (permissive) weighing has not been substantially affected by user fees. Other factors have had more of an influence on this type of weighing. Most firms using Association of American Railroad Class 2 weights or weights under the U.S. Warehouse Act preferred not to change to Class X or Class Y weighing when it became available in 1976 under the U.S. Grain Standards Act. Therefore, there has never been a strong Class X or Class Y weighing program at interior locations.

The substantial decrease in inspections is expected to continue unless user fees are reduced considerably or until the present sluggish grain market shows improvement.

Discretionary (permissive) weighing will likely remain stable with only slight seasonal fluctuations.

Question: I do want to take this opportunity to congratulate you on your efforts to reduce your management structure. The lead you have taken in removing three administrative layers should be followed by many Federal agencies. Our budget would be better served. You have gone a long way toward meeting this Administration's goal of cutting back on the Federal Bureaucracy.

I do understand, however, that there are some problems associated with restriction this subcommittee and the Agriculture Committee placed on your administrative expenses. I am giving you the opportunity — asking you — to explain these difficulties. In other words it looks like the percentage limitation is not the problem, but rather the cap?

Answer: Yes, that is correct. This Subcommittee recommended a limitation on the obligation of funds collected by user fees for inspection and weighing services for the current fiscal year. This provision is included in the Appropriation Act for fiscal year 1982. What this limitation does is to restrict our ability to perform official inspection and weighing services if there is an increase in the volume of grain exported that exceeds the limitation. Thus, this limitation does not take into account the uncertain market demands indigenous to the world grain market.

QUALITY COMPLAINTS

Question: As you are well aware there have been articles in newspapers indicating that U.S. grain shipped overseas is not of the highest quality. As I recall the charges were that it was dirty and we were losing markets because of the poor quality. This was the reason we set up the FGIS. Would you outline the procedures taken if we do receive complaints about dirty grain?

Answer: There have been complaints about the amount of extraneous material--seed hulls, pieces of plants, weed seeds, etc.—and pieces of grain that are inherent to conditions at harvest and subsequent handling of the grain as it passes through the marketing chain. Foreign buyers are aware that this is a normal occurrence and take the precautions of limiting the percentage of this material by contracting for a specific grade or stipulating a fixed percentage that will be accepted.

The problem arises when the buyer believes the contracted level has been exceeded. When we receive a formal complaint of this nature, we review the loading logs and examine the file samples from the lot in question. These two sources provide information on the condition of the grain at the time of loading. This, in turn, is the basis for determining the validity of the complaint or providing some indication as to what may have prompted the complaints.

If a complaint is found to be valid or the circumstances, such as recurring complaints involving the same elevator, indicate further investigation is necessary, the case is turned over to the Compliance Division. This Division conducts an investigation to determine if any provisions of the Act have been violated and makes appropriate recommendations.

Question: How many complaints have you received the last year?

Answer: We have received 8 formal complaints this current fiscal year.

Question: Have we--in the last year--lost any customers because of the quality of our shipments?

Answer: This is difficult to answer. However, we are not aware of any.

QUESTIONS SUBMITTED BY SENATOR EAGLETON

Question: Please provide the Committee with a list of the formal complaints received concerning the quality of U.S. grain from foreign customers in FY 1980, FY 1981, and those to date in FY 1982.

Answer: The information follows:

FEDERAL GRAIN INSPECTION SERVICE
Summary of Inspection and Weighing Foreign Complaints
(Fiscal Year 1980)

Country	Grain	Complaint	No. of complaints	Formal complaint (GFC/WFC)[1]	Informal complaint (GFI/WFI)[2]
Belgium	Corn	Excessive broken corn and foreign material	2		GFI
Chile	Wheat	Low protein	1	GFC	
	Wheat	Infestation	1	GFC	
Colombia	Corn	Heat damage and broken corn and foreign material	1	GFC	
	Corn	Heat damage	1	GFC	
East Germany	Corn	Infestation	1	GFC	
Ecuador	Wheat	Short weight	1		WFI
	Wheat	Infestation	1	GFC	
Egypt	Soybeans	High moisture, black, brown, and bicolored soybeans	1		GFI
England	Corn	Excessive broken corn and foreign material	1	GFC	
France	Corn	High temperature, excessive dust and broken kernels, and incorrect test weight per bushel	1	GFC	
Guatemala	Wheat	Low protein	2	GFC	
	Corn	Broken corn and foreign material	1	GFC	
Ireland	Wheat	Sunflower seed admixture	1	GFC	
Japan	Wheat	Excessive dockage	1		GFI
	Wheat	Low protein	1	GFC	
	Corn	High moisture	1	GFC	
Korea	Corn	Dark germs	1	GFC	
	Corn	Dark germs and broken corn and foreign material	1	GFC	
	Corn	Dark germs and broken kernels	1		GFI
Nicaragua	Corn	Below standard quality	1		GFI
Norway	Sorghum	Short weight	1	WFC	
	Sorghum	Short weight	2		WFI
	Wheat	Short weight	1		WFI
Portugal	Corn	Low quality	10	GFC	
	Corn	Short weight	2	WFC	
Sri Lanka	Wheat	Short weight	1		WFI
Syria	Wheat	Water damage, moldy grain, and infestation	1	GFC	
Thailand	Wheat	Sprout damage	1	GFC	
	Wheat	Low protein	1	GFC	
	Wheat	Excessive dockage, sprout damage, total defects	1	GFC	
West Germany	Soybeans	Excessive foreign material	1	GFC	
	Wheat	Heat damage and dark colored kernels	1	GFC	

Source: FY 1980 Quarterly Reports of Complaints and Inquiries from foreign buyers and others concerning grain inspected and weighed under the United States Grain Standards Act, as amended, have been submitted to the Chairman, Committee on Agriculture, House of Representatives, and to the Chairman, Committee on Agriculture, Nutrition, and Forestry, United States Senate, showing action taken on the above complaints and inquiries.

1/ A formal complaint is recorded when a Form FAS-802, "FAS Foreign Trade Discrepancy Inquiry (grain, oilseeds, and other commodities)" is received by FGIS. A formal quality complaint is denoted as GFC and a formal weights complaint is denoted as WFC.

2/ An informal complaint is recorded when an inquiry, verbal or written, is submitted to FGIS through the FAS Attache. An informal quality complaint is denoted as GFI and an informal weights complaint is denoted as WFI. If an informal quality or weights complaint is formalized in a subsequent reporting period, it will then appear as GFC or WFC, respectively.

FEDERAL GRAIN INSPECTION SERVICE
Summary of Inspection and Weighing Foreign Complaints
(Fiscal Year 1981)

Country	Grain	Nature of Complaint
France	Corn	Excessive BCFM
Spain	Soybean	Excessive FM and High Moisture
Taiwan	Soybean	Excessive FM
Dominican Republic[1]	Wheat	Low Protein
Saudi Arabia	Wheat	Excessive FM and Dkg.
Panama	Corn	Heat Damaged Kernels and Mold Damage
Finland	Soybean	Excessive FM
Belgium	Wheat	Shrunken and Broken Kernels Contrasting Classes
Scotland	Corn	Excessive BCFM
Portugal [2]	Corn	Excessive BCFM
Denmark [1]	Soybean	Dirt and Iron Pellets
South Africa [1]	Wheat	Sorghum Mixed in Wheat
Chile	Wheat	Excessive Dkg., DKT, SHBN
Colombia	Wheat	Poor Quality, Black Tip and Sprout Damage
Guatemala	Wheat	Excessive DKT, M., T.W.
Italy [1]	Wheat	Black Tip Damage, Stones, Direct
The Philippines [2]	Wheat	Short Weight
Surinam	Corn	Short Weight
Portugal	Corn	Short Weight
England	Corn	Short Weight
West Germany [1]	Soybean	Short Weight

1/ Complaints alerted FGIS to potential quality or short weighing problems

2/ Two complaints of the same nature received from these countries.

1982 FOREIGN COMPLAINTS

Country	Grain	Complaint	Number of Complaints
Cyprus	Corn/Sorghum	Infestation	1
Colombia	Soybeans	Excessive Foreign Material	1
Japan	Wheat	Low Protein	3
Denmark	Soybeans	Stones and Dust	2
Taiwan	Wheat	Low Test Weight	1

Question: The Senate Committee Report which accompanied H.R. 4119, the Agriculture Appropriation Bill for the 1982 fiscal year, directs the Department "to continue the scientific investigation of grain elevator and mill explosions." Has the Federal Grain Inspection Service (FGIS) continued such investigations? And how much has been spent to date on these activities?

Answer: No additional research has been done in fiscal year 1982. The National Academy of Sciences was supposed to release their report on their investigation in April of 1982 after having an initial release schedule in October 1981. However, they have now asked for a 4-month extension. Planning of future research is dependent upon evaluation of this report.

In fiscal year 1980, USDA spent $25,000. In fiscal year 1981, USDA spent $25,000 and Occupational Safety and Health Administration spent $288,990. The total for both of these years is $338,990.

Question: The President's 1983 budget for the Department of Agriculture notes that the FGIS is "again directing funds to support a special task force of the National Academy of Sciences (NAS) to investigate the causes of grain elevator and mill explosions." Specifically, how much money has been directed to NAS and what are the responsibilities of the task force?

Answer: No money has been directed to NAS in fiscal year 1982. We are waiting the release of their report to determine what additional research should be done. But since 1979, the Academy has received $338,990 to conduct scientific investigations on the causes and prevention of grain elevator explosions.

Question: Does the arrangement with NAS provide for on-site investigations of grain elevator and mill explosions and how many on-site investigations have been conducted since the beginning of the present fiscal year?

Answer: On-site investigations were conducted by NAS when a major explosion occurred. The investigations were carried out at the disrection of NAS, with concurrence of FGIS and the Occupational Safety and Health Administration. No investigations have been conducted in fiscal year 1982. Fourteen on-site investigations have been made of explosions since the inception of the study.

Question: Are any task force investigation reports presently available? If so, please provide.

Answer: Yes. The Academy released a 20-page report entitled, "The Investigation of Grain Elevator Explosions," in September 1980.

[The report follows]

The Investigation of Grain Elevator Explosions

National Materials Advisory Board

Commission on Sociotechnical Systems

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--Grain elevator explosions have become a problem of serious concern to a number of federal agencies and to the grain-handling industry. The explosiveness of grain dust when ignited in a confined space has been known for years. However, the conditions and sequence of events leading to an explosion, the point and cause of ignition, and the propagation of an explosion in actual occurrences have remained relatively unknown. Remedial action to reduce the number and severity of explosions must be based on determination of these factors. This report emphasizes that previous inventigations following elevator explosions have yielded little information other than that an explosion occurred and that damage was of a certain degree. The investigation of an explosion to obtain a complete understanding of the event requires a team having specialized skills and capabilities. Such teams do not presently exist. The need for such a team and its qualifications and operation are outlined in this report.

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THE INVESTIGATION OF GRAIN ELEVATOR EXPLOSIONS

Report of

Panel on Causes and Prevention
of Grain Elevator Explosions

of the

Committee on Evaluation of Industrial Hazards

NATIONAL MATERIALS ADVISORY BOARD
Commission on Sociotechnical Systems
National Research Council
National Academy of Sciences

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NOTICE

The project that is the subject of this report was approved by the Governing Board of the National Research Council, whose members are drawn from the Councils of the National Academy of Sciences, the National Academy of Engineering, and the Institute of Medicine. The members of the committee responsible for the report were chosen for their special competence and with regard for appropriate balance.

This report has been reviewed by a group other than the authors according to procedures approved by a Report Review Committee consisting of members of the National Academy of Sciences, the National Academy of Engineering, and the Institute of Medicine.

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ABSTRACT

Grain elevator explosions have become a problem of serious concern to a number of federal agencies and to the grain-handling industry. The explosiveness of grain dust when ignited in a confined space has been known for years. However, the conditions and sequence of events leading to an explosion, the point and cause of ignition, and the propagation of an explosion in actual occurrences have remained relatively unknown. Remedial action to reduce the number and severity of explosions must be based on determination of these factors. This report emphasizes that previous investigations following elevator explosions have yielded little information other than that an explosion occurred and that damage was of a certain degree. The investigation of an explosion to obtain a complete understanding of the event requires a team having specialized skills and capabilities. Such teams do not presently exist. The need for such a team and its qualifications and operation are outlined in this report.

PREFACE

Following a number of large explosions in grain elevators in December 1977 the National Materials Advisory Board held a symposium on grain elevator explosions in July 1978 at the request of the U.S. Department of Agriculture. To continue efforts in dealing with the problem of grain elevator explosions, the Occupational Safety and Health Administration requested the National Academy of Sciences to establish a panel, under the NMAB's Committee on the Evaluation of Industrial Hazards, to investigate causes and make recommendations for the prevention of such explosions. As part of the task OSHA requested the panel to examine a representative and specific sample of grain elevator explosion investigations made by the federal government for the purpose of making recommendations for improvement in the procedures. Members of the panel who are experts in explosion investigation and grain elevator operation examined the OSHA files and reports on five explosions. In addition they conducted their own independent on-site investigations of eight explosions that have occurred since the panel was formed in November 1978. The panel also thoroughly familiarized itself with grain elevator operation through discussions with representatives of various agencies and organizations involved in the grain-handling industry and by visits to a number of operating elevators. This report contains the panel's findings concerning the government explosion investigations* and offers recommendations for improvement in the government procedures. It is the first in a series; future reports will cover the causes and prevention of grain elevator explosions, grain dust collection systems and technology, and the causes and prevention of explosions in grain mills.

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*The reports examined were made available to the panel on a privileged basis; their actual content is not cited herein.

PANEL ON
CAUSES AND PREVENTION OF GRAIN ELEVATOR EXPLOSIONS
of the
Committee on Evaluation of Industrial Hazards

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THE INVESTIGATION OF GRAIN ELEVATOR EXPLOSIONS

SUMMARY AND RECOMMENDATIONS

The Panel on Causes and Prevention of Grain Elevator Explosions of the Committee on Evaluation of Industrial Hazards was constituted in November 1978 at the request of the Occupational Safety and Health Administration (OSHA). As part of its charge, the panel was asked to review the adequacy of OSHA's current procedures used to investigate grain elevator explosions and make recommendations for improvement.

The panel examined raw data and available reports of five investigations, one conducted by the Department of Agriculture and four by OSHA. The panel also conducted its own on-site investigations of eight recent grain elevator explosions. It found that, in general, OSHA's investigation of grain elevator explosions is performed mainly for determination of any and all code violations, with determination of cause of an explosion a secondary objective. The reports indicated that none of the investigating teams had been specifically trained to conduct explosion investigations for determination of cause. Each of the government investigations was unique--varying in expertise utilized, methodology, amounts of facts obtained, and their interpretation. In cases where subsequent litigation is a possibility, government files on the investigations are treated as privileged information, and even those files not involving litigation are not readily available to the public. The reports are, therefore, of little value as a basis for remedial action by industry other than for rectifying code violations that may have no relation whatsoever to the cause of the explosion.

The panel feels that the primary purpose of investigations should be to provide information that will lead to a reduction of the explosion hazard in grain elevators. The methods and expertise required for this type of investigation are outlined in this report.

The panel recommends the establishment of a program for investigating and reporting grain elevator explosions in a manner similar to that used by the National Transportation Safety Board, in which emphasis is placed on determining all factors bearing upon an accident. This is in contrast to investigations conducted by federal regulatory agencies in which emphasis is placed on determining violations of codes and regulations for possible subsequent punitive action, even if the violation has no relationship to the explosion.

The requirements for such a program are as follows:

1. A federal agency or department should have the sole authority for investigation of grain elevator explosions. To maintain its objectivity, this organization should be an independent agency, i.e., not a rule-making or regulatory agency or one that has a special interest in the grain handling industry.
2. Investigations should be conducted in such a way as to elicit all facts relating to the explosion. The goals of the investigation should be to determine the circumstances and conditions leading to an

explosion, the source of ignition, and the way the explosion propagated through the elevator. In recognition that an explosion can be a complex event with many contributing factors, identification of proximate or probable cause should not be absolutely required from an investigation. In the interest of obtaining unbiased information, the investigating team should use considerable care to avoid establishing an adversary relationship with witnesses, employees, and elevator operators and owners.

3. Investigations should be performed by a team consisting of experts in dust-explosion phenomena, mechanics of blast damage, electrical engineering, grain elevator operations, interviewing of witnesses, safety regulations and codes, and system analysis. Team members should be able to document their evidence by photographs. They should have at their disposal the services of qualified laboratories for those cases requiring laboratory analyses. Members should be able to proceed to an explosion site within two or three hours notice.

In order to obtain the most benefit from investigations all reports of this body should be available to the public.

As an interim measure and until the foregoing requirements can be met, an existing government agency that has an interest in reducing the incidence and severity of grain elevator explosions could be granted a coordinating role for the investigation of grain elevator explosions along the lines mentioned above.

In summary, all the factors involved in grain elevator explosions must be understood before the hazard can be reduced as far as possible. The examination of explosion sites to obtain data for this understanding requires specialized investigation methods and personnel. On the basis of its regulatory function, OSHA's present investigative procedures even if faultlessly applied and reported, will not satisfy this need.

INVESTIGATION OF GRAIN ELEVATOR EXPLOSIONS - CURRENT STATUS

At present, OSHA has the primary responsibility for the investigation of grain elevator explosions. On rare occasions the Department of Justice conducts an investigation if there is a suspicion or evidence of a criminal act. On equally rare occasions investigations may be conducted by the Department of Agriculture, particularly if there is an injury or fatality to an employee of the Federal Grain Inspection Service.

The situation with respect to current investigations has two serious faults. First, every explosion is not investigated; some are not even reported beyond the local news media. Elevator operators are required to report explosions only to OSHA and then only if a fatality occurs or there are at least five injuries requiring hospitalization. Second, explosions are usually investigated by OSHA only to determine a basis for legal action. Their purpose in investigating explosions is primarily to seek violations of safety regulations.* Investigations to determine the chain of events leading to and following the initial ignition of grain dust are rare occurrences and do not appear to be the responsibility of any organization.

At the request of OSHA a task group of the panel examined investigation records and raw data in OSHA's files of five grain elevator explosions to determine the adequacy of current techniques used by the federal government. Without identifying the individual investigations the task group found the following:

1. All five investigations were conducted without guidelines or a methodology for conducting an investigation. Each investigation was unique--varying in expertise utilized, amount of facts obtained, and subsequent interpretation of facts.
2. None of the five investigation files contained recommendations for preventive action.
3. The files of the five investigations are not open to the public because of pending litigation.
4. Only two of the investigations were quite thorough and complete, one particularly so. In the latter, the investigators drew a complete plan of the site, even though no drawings were available, and wrote a report. Thorough interviews of the witnesses by the investigators and a detailed examination of the entire site yielded a well-documented and quite believable sequence for the initiation and subsequent spread of the explosion. The only fault the task group could find with this report was that the explosion process was not described using current explosion investigation terminology. Nevertheless, the data were sufficiently clear so that an expert, reading the report, would have a clear understanding of what happened. The other well-documented report, which was not an OSHA investigation, contained sufficient information concerning the events leading to the explosion. In this case, the investigators repeatedly returned to the scene as portions of the elevator were uncovered by clean-up crews over a period of approximately three weeks. This persistence paid off because they discovered a likely source of ignition.
5. In the third incident, even though statements of the witnesses led to fairly obvious conclusions about the ignition source, the documentation was not sufficiently complete. A report was not prepared.
6. In the fourth incident legal action was required to obtain entry and the investigators were unable to obtain photographs or other evidence before critical portions of the site were disturbed. Thus, they were unable to document the damage patterns and could not ascertain the cause.
7. A fifth investigation file contained only witnesses' statements and field notes without a write-up or follow-up. The cause of this explosion will probably never be understood.

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*See Sections 8, 9, and 10 of 84 Statute 1593 (29 U.S.C. 655); Secretary of Labor's Order 8-76 (41 Federal Register 205029).

The task group that examined the above-mentioned files conducted its own independent on-site investigations of eight grain elevator explosions that occurred since the formation of the panel in November 1978. In each case the physical cause of ignition as well as the course of the explosion were identified with a reasonable degree of certainty. The investigative team, drawn from members of the panel, consisted of an explosion expert, a grain elevator expert, a chemical engineer experienced in explosion investigation, and a systems analyst.

Based on the panel's experience in investigating explosions and the review of the government procedures, the panel concludes that, at present, the process of investigating and reporting grain elevator explosions is undisciplined and unsystematic. The responsibility for investigation is poorly designated and, by and large, qualified personnel are not used. Finally, the information concerning explosions is not available to the interested public. These conclusions are supported by observations made in the recent Department of Agriculture report on grain elevator explosions.*

INVESTIGATION OF GRAIN ELEVATOR EXPLOSIONS - PRESENT NEED

Although violations of safety codes and regulations represent a hazard in the working environment, it seems clear to the panel that investigations of grain elevator explosions based solely on determination of such violations are not sufficient. The panel feels that there is a need, at present, for investigations to determine the total chain of events in an explosion and thus provide a factual basis for recommending appropriate steps to reduce the frequency and severity of elevator explosions. Lack of knowledge obtained from this type of investigation has led in at least one instance to restrictive state legislation discouraging the use of effective control technology.** Identification of events leading to a known explosion will provide facts that would help in the selection of preventive measures directly related to real hazards and take into account the practical needs of elevator operation. Knowledge of these events will also serve to convince employees and employers of the hazardous conditions that can occur in grain elevators.

The investigation of grain elevator explosions ~~to~~ determine all facts relating to an explosion can be a complicated task. Most explosions actually consist of a number of explosions--a primary explosion followed by one or more secondary explosions, depending on the distribution of dust throughout the elevator. Tracing the sequence of explosions is a difficult task. Factors and events leading to an explosion are often hidden or are not readily apparent. For example, it is common (unsafe) practice to "jog the leg" when an elevator belt is stuck. This is an attempt to free the belt by alternately stopping and starting the driving motor. Explosions have resulted from this practice when the belt parted and dropped down the leg. The question then arises as to whether the employee had been made aware of the hazard associated with this action. Facts such as these need to be known before recommendations can be made for remedial action.

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*Prevention of Dust Explosions in Grain Elevators--An Achievable Goal, A task force report of the USDA, pages 46-47, January 1980.

**Laws of the Sixty-Eighth General Assembly (Iowa), 1979 Session; Chapter 12, Agriculture, Economic Development, Energy, Coal Research and Natural Resources (H.F. 734); pp 83; June 10, 1979.

TECHNICAL INVESTIGATIONS - PROCEDURES, REQUIREMENTS, and RESULTS

In order to discover all facts related to an explosion it is necessary to send a team of qualified observers to the site to make careful observations, record data, and interview witnesses. The team should analyze the information obtained, draw conclusions, and make recommendations for the prevention of similar occurrences in the future.

The first phase of the investigation--on--site observations, data collection, and interviewing witnesses--may continue for weeks or months. Primary emphasis is on seeking every conceivable clue to the initial and subsequent events. As will be noted later in this report, it is critical to avoid the adversary posture when interviewing witnesses for the obvious reason that willingness to expose every possible clue--especially by those most knowledgeable, i.e., those involved in the accident itself--will be restrained by possible or imagined punitive action.

The second phase should be the analyses of personal injuries, grain-handling hardware, elevator operations, combustion products, ignition sources, explosion debris, testimony of witnesses, and other evidence gathered in the first phase. In some cases physical analyses must be done in a controlled environment such as a laboratory.

The third phase of the investigation should extract the largest number of indisputable and unambiguous conclusions possible from the analysis of the physical evidence and witnesses' statements.

The objective of the total process is a recommended course of action that will reduce the frequency and severity of similar accidents.

The team conducting the investigation should be composed of trained professionals whose training consists of formal education, professional specialization, and on-site experience. The team's competences should include the following specialities:

Phenomena of dust explosions

Mechanics of blast damage

Mechanics of grain elevator operation

Interviewing of witnesses

Electrical engineering

Safety regulations and codes

Systems analysis

At least one and preferably all team members should be capable photographers.

One of the primary requirements for the investigative team is its availability to respond to a call and go immediately to the site of an explosion. Evidence of causative factors in an explosion disappears rapidly after the incident. Therefore, it is critical that the investigators arrive at the scene as soon as possible. They should be able to depart for the explosion site within two hours of notification. Return visits during salvage or demolition operations may be necessary.

Although OSHA, presently, has the responsibility for the investigation of grain elevator explosions, it has no authority to isolate the scene or restrict the activities of others having an interest in the explosion. As mentioned before, it has no designated authority or responsibility for determining a complete reconstruction of the event. In current practice numerous federal, state, and local officials, industry representatives, insurance investigators, etc., can and do appear on the scene of an explosion to extract only that evidence pertinent to their own special interests. Their findings rarely reach the public except through the news media.

The authority needed by an investigating group consists of four parts:

1. Authority at the accident scene to physically isolate the scene, collect evidence, interview witnesses, conduct salvage and demolition (great destroyers of evidence), and communicate with the news media;
2. Authority for subsequent analyses, simulation, and testing following the assembly of on-site evidence to resolve causative factors;
3. Authority to conduct public hearings for additional fact-finding as necessary; and
4. Authority to publish all findings related to the explosion in a public report made available to any interested party.

Any permanent federal agency that is given the authority to investigate grain elevator explosions for cause must be completely autonomous, as is the National Transportation Safety Board. Rule-making agencies that can take punitive action are primarily interested in discovering violations of codes and regulations. They are likely to seek out causes and details of an explosion only if they have some bearing on a violation. Since their mandate is to enforce rules, this immediately places them in an adversary position in the eyes of the people at the site of the explosion. Even if a rule-making agency re-directs the emphasis of its investigations along the lines recommended by this panel, this will not eliminate the adversary impression. Thus, even with the best of intentions, such a group would always work under a handicap that usually would be severe enough to obstruct its investigation.

The panel feels that, in order to obtain a thorough knowledge of the causes and prevention of grain elevator explosions, it is critical that investigations be conducted as much as possible in a non-adversary environment. The use of adversary procedures is likely to lead to serious errors in explosion investigations. The ideal way to eliminate the adversary relation would be to grant immunity from prosecution to individuals who testify on the explosion. This ideal may not be possible because the authority to grant immunity is generally quite limited. Further, there are occasions involving malicious behavior for which society demands punishment.

The reports of explosion investigations should be standardized so that commonalities among different explosions can be codified and effective preventive actions taken. The reports should be made public so that their findings can be used by the industry to prevent future explosions. The agency that is ultimately assigned the responsibility for investigation should publish the report. The reporting format evolved over the years within the National Transportation Safety Board could serve as a model for reporting the investigation. The recommended format is:

1. Investigation
    a. Operational history
    b. Injuries
    c. Damage to the elevator
    d. Other damage
    e. Personnel information
    f. Elevator information
    g. Meteorological information
    h. Standards in force
    i. Wreckage and explosion information
    j. Medical and pathological information
    k. Fire cause and damage
    l. Survival aspects
    m. Elevator instrumentation
    n. Tests and research
    o. Other information

2. Analysis

3. Conclusions.

ADMINISTRATIVE ISSUES TO BE RESOLVED

As noted in the previous section of this report, there are some actions to be taken and fundamental issues to be resolved before grain elevator explosions can be properly investigated. In summary they are as follows:

1. A federal department or agency should be given the authority and responsibility to conduct grain elevator explosion investigations in the manner recommended by the panel. This should not be a regulatory agency. The group making these investigations should have no authority to take or abet punitive action.

2. The question of witness immunity from prosecution should be resolved. The panel feels that the investigating team should have the authority to grant immunity if and only if it is needed to complete the investigation. Granting of this authority to the team would require legislative action.

3. Standards should be established to govern the resource allocation (budget) for any given magnitude

of grain elevator explosion. While it is assumed that every catastrophic disaster will warrant investigation, there is a level of damage, lost time, etc., below which extensive investigation may not be economically justifiable. However, the investigation of smaller, less damaging explosions may be very informative with very little expenditure of time by an expert team and thus could warrant investigation on a selective basis. The decision for conducting an investigation should not be based solely on the occurrence of a minimum number of employee injuries or fatalities.

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Question: If presently there is no contractual relationship with NAS or similar organization to conduct explosion investigations, has FGIS developed a program within the agency which deals with the problem of grain elevator and mill explosions, and does the program provide for the conduct of on-site investigations of grain elevator explosions?

Answer: FGIS is deeply concerned about the causes and prevention of grain elevator and mill explosions. If there were a major grain dust explosion, the Manager of the Safety and Health Unit of FGIS would conduct an on-site investigation. This person also collects and compiles data on all grain elevator explosions.

Question: If on-site investigations are not presently conducted, are there plans to begin such investigations?

Answer: Such investigations are being made, but in addition, a safety position has been established by the Secretary in his office to have responsibility for all safety matters within the Department which will include coordinating on-site investigations. Also, a Grain Storage and Processing Safety Policy Committee has been established with the Assistant Secretaries as members and the Executive Assistant to the Secretary as the Chairman. This Committee will be responsible for formulating elevator safety policy for the Department.

Question: In what manner does FGIS attempt to track the incidence of grain elevator and mill explosions?

Answer: The Safety and Health Unit assumed the responsibility for keeping the records of the number of grain elevator and mill explosions and fires as well as the number of evacuations due to hazardous conditions encountered in the grain elevators.

Question: Specifically from whom does FGIS obtain its information on the occurrence of an explosion and the number of fatalities and injuries.

Answer: FGIS has a field office in every major grain producing region in the United States. The field office supervisor reports to the Safety and Health Unit any fire or explosion occurring in any grain handling facility in his area.

Question: What has been the role of the agency's Safety and Health Unit in the investigation of explosions this fiscal year and what do you foresee their role will be in FY 1983?

Answer: The Unit has been responsbile for monitoring and compiling data on all grain elevator and mill explosions and other related events. The Unit also will be working very closely with the new Grain Elevator Safety Advisor in the Office of the Secretary and the Grain Storage, Processing Safety Committee.

Question: Your statement indicates that there will be a decrease in standardization and compliance programs. Please provide specifics as to what efforts will be discontinued or decreased?

Answer: To comply with the President's Economic Recovery Program, we are proposing a decrease in the standardization and compliance activities which are funded by appropriations. For standardization, reductions will be accomplished by extending the completion dates of certain program activities, thus using less staff. We are also reevaluating the priorities for research activities and redirecting program resources to develop methods to improve accuracy and uniformity in grading grain.

For compliance, we are transferring to official agencies the examination of the licensing process for official inspection personnel. We are also consolidating on-site redesignation reviews for official agencies with other program reviews and investigations. Finally, some of our preliminary investigations may be transferred to OIG, if warranted.

Question: Are there any plans being considered which would result in further staffing reductions in your Kansas City locations?

Answer: We do not anticipate any further reductions in the Kansas City area.

Question: Are there currently any plans being considered or developed for a reorganization that would result in staffing reductions in your Kansas City operations?

Answer: A reorganization of the headquarters element has been completed. We are continuing to look at the programs, policies and procedures, and statutory authorities for every element of the organization. This may involve additional reductions, but it is too early to determine if any additional personnel reductions will be needed. Our goal is productivity of the workforce, cost effectiveness of operations, and providing no-frills quality service to the users.

Question: What is the role of the Grain Advisory Committee? How many members will there be and how will they be selected?

Answer: The role of the Grain Advisory Committee is to enable the members to discuss and provide advice to the Administrator of the Federal Grain Inspection Service with respect to the efficient and economical implementation of the U.S. Grain Standards Act of 1976. This is to assure the normal movement of grain in an orderly and timely manner.

Twelve members were selected as of September 17, 1981. They were nominated by various industry groups and selected by the Secretary. They are representative of the different segments of the grain industry.

FOREIGN AGRICULTURAL SERVICE

OFFICE OF INTERNATIONAL COOPERATION AND DEVELOPMENT

STATEMENTS OF RICHARD A. SMITH, ADMINISTRATOR, FOREIGN AGRICULTURAL SERVICE, AND JOAN S. WALLACE, ADMINISTRATOR, OFFICE OF INTERNATIONAL COOPERATION AND DEVELOPMENT

ACCOMPANIED BY:

SEELEY LODWICK, UNDER SECRETARY FOR INTERNATIONAL AFFAIRS AND COMMODITY PROGRAMS

ALAN T. TRACY, ASSOCIATE ADMINISTRATOR, FOREIGN AGRICULTURAL SERVICE

DAVID M. DAUGHERTY, ACTING ASSOCIATE ADMINISTRATOR, OFFICE OF INTERNATIONAL COOPERATION AND DEVELOPMENT

ROBERT SHERMAN, DEPUTY BUDGET OFFICER, DEPARTMENT OF AGRICULTURE

ACTIVITIES OF INTERNATIONAL PROGRAMS

Senator COCHRAN. Our second panel will be concerned with the Department's international programs. It will consist of witnesses from the Foreign Agricultural Service and the Office of International Cooperation and Development. We will also be discussing Public Law 480 programs and the activities of the General Sales Manager in the context of these witnesses' presentation. All these activities are in the portfolio of the Under Secretary for International Affairs and Commodity Programs.

The Foreign Agricultural Service develops foreign markets for U.S. farm products through its market expansion activities. It coordinates the Department's formulation of trade policies and programs, with the goal of maintaining and expanding world markets for U.S. agricultural products.

It attempts to forecast the export potential for U.S. agricultural commodities by analyzing agricultural information essential to the assessment of foreign supply and demand conditions. The FAS also maintains a worldwide agricultural intelligence and reporting service to keep American farmers and traders abreast of changes in the world markets.

The subcommittee recommends and the Congress approves an annual appropriation to support these activities. The President's request this year for the Foreign Agricultural Service is $79.2 million, which is an increase of $11.5 million over fiscal year 1982.

Under the Agricultural Trade Development and Assistance Act of 1954—also known as Public Law 480, Food for Peace—facilities and funds of the Commodity Credit Corporation are used to carry out programs for exporting agricultural commodities. These exports occur through either credit sales or commodity dispositions abroad.

The Congress appropriates funds to cover partially the cost of these programs. The administration's request for fiscal year 1983 is $1.028 billion—for titles I and III credit sales, $378 million; and title II dispositions, $650 million.

The General Sales Manager is responsible for coordinating the policies and programs of Public Law 480, commercial export credit sales, most Commodity Credit Corporation-owned commodity exports, and other export sales programs. The office is supported by funds transferred from the Commodity Credit Corporation. The Congress recommends the amount of transfer each year. The administration's request for fiscal year 1983 is $5,599,000, up slightly from the current fiscal year.

The Office of International Cooperation and Development is the Department's clearinghouse with respect to cooperative international agricultural research and exchange. It also assists developing nations to improve their agricultural production and rural development capabilities. The President is requesting $6,680,000 to support this office in the next fiscal year.

We are very pleased to welcome Seeley Lodwick, Under Secretary for International Affairs and Commodity Programs. He is accompanied by Richard Smith, Administrator of the Foreign Agricultural Service; and Joan Wallace, Administrator of the Office of International Cooperation and Development. We appreciate very much your being here today.

PREPARED STATEMENTS

Mr. Secretary, we have Mr. Smith's and Ms. Wallace's statements. We will make these a part of the record at this point and ask them to summarize or highlight the statements in any way they would like. We also have biographical sketches which we will place in the record.

[The statements and biographies follow:]

PREPARED STATEMENT OF RICHARD A. SMITH
ADMINISTRATOR

FOREIGN AGRICULTURAL SERVICE

Mr. Chairman, we are grateful for the opportunity to meet with you and to discuss the budget request of the Foreign Agricultural Service. We appreciate the guidance provided by the Chairman and the Subcommittee over the years — and have looked forward to reviewing our programs and activities with you.

As is true with other government agencies, we are responding to changing needs and priorities under President Reagan's leadership. In our case, global events also impinge forcibly on programs and objectives and require us to be constantly at the ready in a world of change.

In many ways, this seems to be a year of adjustment in international trade — to be followed, we hope, by renewed growth in this country's agricultural exports. Economies and markets throughout the world are adjusting to a sharp growth in supplies of grains and other basic commodities this year, coupled with depressed economic conditions in most countries except for the large petroleum exporters.

AGRICULTURAL EXPORTS

Export markets for U.S. farm products began to soften in the April-June quarter of 1981, complicated for us by increased competition from Western Europe and the South American exporting countries. Trade-restrictive practices in certain of our traditional markets were also increasingly painful.

Finally, the strengthened U.S. dollar has altered price relationships for agricultural commodities. A strengthened dollar obviously is in the national interest; it works against inflation and for the economy. In part, the strong dollar stems from the ability of agriculture itself to produce trade surpluses year after year. So we have the irony of a situation where our own success at producing and exporting now makes it possible for some competitors to underprice us because of exchange rate differences.

At any rate, we expect that the growth of several years in the value of U.S. agricultural exports will be interrupted in FY 1982, much of this traceable to a decline in the volume and value of feed grain shipments.

Projected feed grain exports will be off by slightly over 5.0 million tons from the level of FY 1981. Value will be off by around $2.6 billion -- more than enough to account for the entire decline in agricutural exports for the year.

To put this in perspective, it is important to recognize that feed grains have been a major element in recent export growth. In 1970, U.S. corn growers exported only 12 percent of their production. Within ten years, they had raised this proportion to around one-third -- with record volumes that reached 69.3 million tons in FY 1981. So we have seen a major expansion in corn exports in the 1970's -- highlighted by a growth of 20 million tons in only 5 years (1977-81) followed by a projected decline of over 5 million tons in a single year (FY 1982).

Wheat exports continue to grow this year in both volume and value. Shipments of soybeans and soybean products will be up this year although value will be about the same. Cotton and tobacco exports will be larger in both volume and value. Exports of poultry products and livestock and livestock products will continue their growth.

So prospects for agricultural exports in this fiscal year are mixed, but the upshot is that we expect total export values to be about $1.5 billion below the $43.8 billion recorded last year. With farmers more dependent than ever on export sales, we feel in the Foreign Agricultural Service a mandate to do everything possible to bring about a resumption of the upward trend in agricultural exports.

MARKET DEVELOPMENT

We are making a major effort, together with the market development cooperators, to pinpoint markets and situations where the greatest opportunities exist. Planning of activities in foreign markets is done largely by the cooperators, subject to FAS approval, and the cooperators execute the projects under the supervision of FAS/Washington and the U.S. agricultural counselor or attache in the target country.

With the need to hold down Federal expenditures, we know that we have to make every dollar of the FAS budget work to the maximum. We feel that in the last 12 months we have developed a market development planning process that will accomplish this.

Without going into detail, I will simply say that, using a systematic quantifiable approach and increased participation from the 54 cooperator associations who work with us, we are able to select commodities by country, pinpoint the constraints to export growth of each, identify what would work best to increase sales, and then project in dollar terms the results we could expect from each investment of market development time and money. The system involves not only our market development efforts, but also revised priorities and improved focus for our credit and trade policy resources.

The new and more highly focused approach that we are bringing to export promotion is made possible by the special capabilities of the market development cooperators. The cooperator system combines specialized commodity competence with a global perspective and grassroots support. It enables farmer members to join with other private interests and the federal government in programs that directly enhance market opportunities abroad.

The cooperator idea is particularly suited to an agricultural system based on independent farming, private trading, and a government that helps but does not interfere. That's why it has succeeded so well for American agriculture. Other industries and countries have looked on with envy and admiration but have not been able to duplicate it. The cooperator system is a uniquely American institution.

Developing new markets for grains and oilseeds

We have under way an intensive campaign to expand grain and oilseed exports. The partial embargo of sales to the Soviets in 1980 resulted in stepped-up production of our competitors. To counter this, USDA has targeted certain countries, identified as having excellent growth potential, for expanded market development activities over the next several years.

Government-industry teams of U.S. grain and oilseed specialists have already visited twelve of these countries for high-level consultations with government and trade officials. The U.S. objective is to beat the competition with better trade servicing, improved credit programs, and precise marketing plans to move specific amounts of grain in 1981/82 and subsequent marketing years.

Besides demonstrating the ability and desire of the U.S. Government and private sectors to work together to serve the interests of foreign customers, these missions have already brought concrete results.

These include an increase in the credit guarantees for wheat sales to Brazil, a Public Law 480 agreement for wheat sales to Morocco, and plans for a pilot noodle plant and a pilot flour mill in China. Agreement was reached to locate three U.S. cooperator offices in China, representing wheat, feed grains, and soybeans. A number of exchange visits have also been arranged between U.S. and Chinese industry technicians and policymakers.

Secretary Block also led missions to Asia and Africa — countries that we judged to have excellent growth potential. Most recently, the Secretary in January joined Commerce Secretary Baldrige in a trip to Nigeria, the Ivory Coast, and Cameroon — three oil-producing African nations with potential to become important U.S. agricultural customers. Nigeria is the second largest exporter of petroleum to the United States.

This trip showed us that additional market development activities are likely to yield sizeable benefits to U.S. agricultural exporters, particularly in areas that have traditional ties to France and thus have continued to deal mostly with the French. There is need for new contacts with both government and private traders in these countries to enhance their awareness of the types and qualities of U.S. farm products available for export.

Market development cooperators are planning to expand their programs significantly in these areas. The Rice Council is planning to open an office in Abidjan, which will cover not only the Ivory Coast but also other countries in West Africa. U.S. Wheat Associates is beefing up its coverage of the region as well, and both the Feed Grains Council and the American Soybean Association will be working closely with the Agricultural Trade Office in Lagos to get market development activities started in West Africa.

U.S. agricultural export growth to these areas has been limited by a lack of adequate facilities for bulk handling of imports, for processing, and for distribution — and also by out-moded livestock technologies. The U.S. private sector can play an important role in developing these markets by helping to provide technicians, training, and trade servicing.

We are still bullish about prospects for U.S. grain and oilseed sales in the years beyond fiscal 1982. World demand will continue to grow, and the growth will be largely outside the traditional markets.

China, Malaysia, Thailand, the Philippines and other countries are making genuine economic progress and are in a position to increase consumption of grains and oilseeds in a pattern similar to that of Japan 20 years or so ago. Africa, some of the OPEC countries of the Middle East, and Latin America also will be using more of these products than they can grow themselves.

Promoting value-added products

We are also focusing greater attention on expanded exports of value-added products — items that have been processed, semi-processed, prepared, cooked, dried, manufactured, or otherwise "added to" in terms of unit value. Examples are poultry and meats; canned, frozen or dried fruits and vegetables; packaged cooking oils or juices; and grain products from corn meal to corn flakes and from flour to fig newtons.

We are already exporting important quantities of value-added products, between $12-13 billion last year. But we are interested in expanding these exports because the processing functions create American jobs and the added exports help agriculture as well as the overall economy. We do not view this effort as being in conflict with our continuing drive to export more bulk or raw products. We see increased value-added sales as additional to expanded exports of bulk products.

In promoting value-added products, we favor flexible approaches that encourage private industry to participate. The State agriculture departments also are a valuable ally in promoting value-added products, since these products are often branded or identified items that can be sold as the products of a particular state.

The National Association of State Departments of Agriculture has scheduled a major international food show in Atlanta for May 1983, in cooperation with the Foreign Agricultural Service. This will be the first show of its kind to represent food exporters from all over the United States. We hope to have 600 to 700 exhibitors from most of the 50 states and to attract at least 1,000 buyers from all over the world.

On the negative side, many developing countries restrict the import of value-added products because they are working to develop their own processing industries to utilize their own labor. Developed countries, too, find sophisticated ways to restrict imports of value-added products.

We are continuously pressing for greater access to markets where we believe that we are encountering unfair, uneconomic, or illegal trade barriers — either for bulk or value-added products.

COMBATTING BARRIERS AND UNFAIR COMPETITION

The United States has under way the most highly unified and well-coordinated effort to lower trade barriers that we have ever had. This is essential in view of recent protectionist trends in the world and the increased importance of trade to American agriculture.

Twenty-five years ago, when the European Community was created by the Treaty of Rome, U.S. agriculture was exporting the product of only one cropland acre out of every seven acres harvested -- and 40 percent of those exports were concessional sales or "food aid."

Today, our agriculture is exporting the production from almost two acres out of five — and these exports are 96 percent commercial. We can no longer accept the growing protectionism and unfair competition generated under the EC's Common Agricultural Policy. Nor can we accept the import restrictions still being applied by Japan to a long list of U.S. farm products. Other countries also give us problems, but Europe and Japan are our largest markets and progress in those countries has been much too slow.

As a result, the Secretary of Agriculture and the Secretaries of Commerce and State — along with the U.S. Trade Representative -- have joined in a coordinated effort to liberalize trade policies of our major customers. Secretaries Block, Haig, and Baldrige and Ambassador Brock have traveled to Europe and Asia -- separately and together — to press U.S. concerns. More recently, a delegation of EC commissioners came to Washington in early February for Cabinet-level consultations.

As a result of these various efforts, we have turned back, for now at least, new threats to U.S. exports of beef and soybeans to the European Community. And we have drawn the lines more clearly than ever before as to our determination to defend against new border protection, as well as subsidized EC exports that compete unfairly in traditional U.S. markets.

The European Community has historically been a net importer of grain; last year, it became a net exporter for the first time. The Community is traditionally a net importer of poultry and beef and veal; now, it is the world's largest exporter of poultry and the second largest exporter of beef and veal — very near to overtaking Australia. EC sugar exports have more than doubled in four years, seriously affecting the U.S. domestic market as well as other countries. Virtually none of these exports would be possible were it not for the Common Market's export subsidies.

As for the Japanese, their tremendous surplus in overall trade with the United States makes it timely and essential that greater liberalization be achieved in their agricultural imports. In Tokyo last October, Secretary Block pressed for total removal of Japan's import quotas on beef and citrus products, commodities for which the Japanese have promised further liberalization. But we also need action on many other farm products important to the United States.

A few weeks ago, Japan announced a list of 99 products to be liberalized. Although 36 of the listed items are agricultural products, we are not at all impressed with the number or extent of concessions offered. It is significant that the Japanese, in releasing this list, made no mention whatever of their import quotas on farm products.

Further liberalization of U.S. imports into Japan -- agricultural and nonagricultural — will be the object of a major U.S. push in the months ahead.

BUDGET REQUEST

CCC Export Credit

Turning to the budget request, we plan to continue to make available up to $2.5 billion in CCC Export Credit Guarantees in fiscal year 1983 to help maintain and expand existing markets and penetrate new ones. This represents no direct outlay of budget funds unless and until there is a case of nonpayment to the U.S. banks that actually make the loans.

Public Law 480

For the Public Law 480 programs, we are requesting a program level of $1,509 million -- $859 million for Title I/III and $650 million for Title II. This represents a total increase of $28 million from the 1982 amended program level. This amended program level includes a supplemental request to increase the FY 1982 program level for Title II by $19 million. Tonnage, however, will decline slightly — to 4.9 million metric tons from the 5.1 million metric tons expected to be programmed this year.

Commodities to be shipped under P.L. 480 will consist primarily of whole grains -- wheat, rice, corn, and sorghum — and their products, plus cotton, vegetable oil and non-fat dry milk. The non-fat dry milk, which is distributed through the Title II program, is provided from Commodity Credit Corporation inventories.

General Sales Manager

For the FAS General Sales Manager to carry out these programs, we are requesting $5.599 million to be funded by allotment from the Commodity Credit Corporation. This represents an increase of $163,000 for restoration of pay costs absorbed in FY 1982.

Foreign Agricultural Service

The budget request for FAS salaries and related expenses in FY 1983 is $79.207 million. This represents an increase of $11.513 million over FY 1982. Primarily, this increase is to assure the agency sufficient resources to maintain current efforts to expand markets for U.S. commodities. Approximately 10 percent, or $1.2 million, of the requested increase will be allocated to new market development activities in countries that we have identified through intensive strategic planning as having the best potential for increasing imports of U.S. agricultural commodities.

The need to offset overseas inflation accounts for $4.264 million or 37 percent of the total increase requested. Of that amount, $2.738 million would be allocated to Foreign Market Development and $1.526 million to Foreign Agricultural Affairs — that is, the activities of agricultural counselors, attaches, and agricultural officers posted abroad.

The funds requested to offset inflation in Foreign Market Development would go primarily to the cooperator program, assuring that it will continue to function at its current level. The remainder of the market development increase for inflation would be used to offset increased operating costs of the agricultural trade offices overseas.

The overseas inflation increase for Foreign Agricultural Affairs is needed to meet added costs for such items as expected increases for wages of foreign nationals, payments to the Department of State for higher administrative support costs, and housing and related costs for U.S. citizen employees. Also included is an increase of $1.055 million for restoration of pay costs absorbed in 1982.

These increases needed to maintain current services are partially offset by a reduction of 30 staff years and $2.020 million commensurate with the

President's plan to reduce Federal employment. We plan to reduce Washington-based employment by 20 staff years and overseas employment by 10 staff years. We propose a reduction of $1.420 million for Commodity Analysis and Services activities and $.6 million for Foreign Agricultural Affairs activities.

Lastly, the budget includes an increase of $7.014 million to be used to purchase approximately 15,000 LANDSAT scenes from the Department of Commerce and to fund a fair share of communications satellite costs for the transmission of LANDSAT data to our operational analysis unit. FAS and other USDA agencies use satellite data to assess the conditions of agricultural crops in foreign countries.

These countries include the major importers of U.S. commodities as well as competitors for overseas markets. Information obtained in this way is valuable in augmenting Attache reporting from major embassies around the world and information collected from domestic and foreign trade sources.

Currently, the satellite data are being provided at little or no cost to FAS. However, beginning in FY 1983, the users of LANDSAT data will be required to pay a fee sufficient to cover the full cost of LANDSAT system management and operations. This policy has made it necessary to shift financing away from the National Aeronautics and Space Administration (NASA) and the National Oceanic and Atmospheric Administration (NOAA) to those agencies in USDA that utilize LANDSAT data. This does not represent an increase in program activity but rather a change in how the costs are reflected in the budget.

Thank you, Mr. Chairman. I will be pleased to have your comments and to respond to questions.

BIOGRAPHICAL SKETCHES

LEO V. MAYER

Mr. Leo V. Mayer is a native of Clyde, Kansas. He holds a Bachelor's and Master's degree in Agricultural Economics from Kansas State University in Manhattan. He received his PH.D. from Iowa State University in Ames.

Mr. Mayer was a research assistant with the Economics Department of Kansas State University from 1959-1960. In 1960, he worked for the Statistical Reporting Service in Sacramento, California. In 1961, he joined the staff of Iowa State University in Ames first holding the position of Assistant Professor, Department of Economics, then to Associate Professor, and in 1971, he became Associate Director, North Central Regional Center for Rural Development.

In 1972, Mr. Mayer served as Senior Staff Economist, Council of Economic Advisors, Executive Office of the President. From 1974-1978 and again from 1979-1981, prior to joining FAS, Mr. Mayer was Senior Specialist for Agriculture with the Congressional Research Service, Library of Congress.

Mr. Mayer also served in the Office of the Special Representative for Trade Negotiations from 1978-1979. In 1981, Mr. Mayer assumed his present position as Associate Administrator of FAS.

As author of several books and articles on agriculture and food policy, he has served as guest lecturer for the U. S. Information Agency and Department of State in India, Mexico, Brazil, Chile, the Caribbean, and the Soviet Union.

Mr. Mayer is married, has two children, and lives in Alexandria, Virginia.

ALAN T. TRACY

Mr. Alan T. Tracy is a native of Janesville, Wisconsin. He holds a B.S. degree in Agricultural Economics from Cornell University, Ithaca, N.Y., and a M.S. degree in International Business from the University of Wisconsin at Madison. A Rotarian, he has been a bank director and is an instrument rated pilot. He is a trustee of Beloit College, and in 1980, Mr. Tracy was named Wisconsin's outstanding Young Farmer by the state Jaycees.

From 1976 until his appointment, Mr. Tracy was president of Tracy and Son Farms, Incorporated, Janesville, Wisconsin. The firm is a family farm and seed business producing seed corn, seed oats, alfalfa, hogs and beef.

Mr. Tracy joined FAS in 1981 as the General Sales Manager and Associate Administrator. He is also a vice-president of the Commodity Credit Corporation.

Mr. Tracy is married, has three children, and lives in Vienna, Virginia.

JOHN W. WILLIAMS

Mr. John W. Williams is a native of Dallas, Pennsylvania. He holds a B.A. degree in Political Science from King's College, Wilkes-Barre, Pennsylvania, and a M.A. degree in International Relations from Maryland University.

Mr. Williams joined FAS in 1969. He served as Budget Analyst from 1970-1975. He held the position of Chief of the Budget Branch from 1975-1981. In 1981, Mr. Williams was named Director of the Budget and Analysis Division.

Mr. Williams is married, has two children, and lives in Rockville, Maryland.

PREPARED STATEMENT OF DR. JOAN S. WALLACE
ADMINISTRATOR
OFFICE OF INTERNATIONAL COOPERATION AND DEVELOPMENT

Mr. Chairman, Members of the Subcommittee, I am pleased to be here to discuss with you the programs and accomplishments of the Office of International Cooperation and Development (OICD). We recognize that this is a year of constrained budgets. However, I am here to talk about the continuation of the very important programs of OICD and the contribution that these programs make to American agriculture and to the agriculture of the countries we cooperate with throughout the world. Before I give specific examples of these contributions, I would like to describe OICD's background and responsibilities, define the objectives of our programs, and talk about the role of the United States Department of Agriculture (USDA) in international agricultural cooperation and development.

Background and Responsibilities

OICD was established to manage, facilitate and/or execute USDA's policies and programs concerned with cooperative international agricultural research and scientific exchange, and to assist developing nations to improve their institutional capabilities in agricultural production and rural development to combat hunger and malnutrition.

OICD directs USDA's/AID-supported and country-funded international training and technical assistance; manages USDA's participation in cooperative programs of international scientific exchange and research from which there are mutual benefits; provides liaison with international food and agriculture organizations; facilitates USDA's collaboration with the university community in international scientific and cooperative programs; and participates in the formulation and evaluation of food aid development projects (P.L. 480, Title I and III).

As the lead agency in the Department for international agricultural development, we are responsible for the formulation and review of agricultural technical assistance efforts, the development of scientific exchanges with other countries, and liaison with national and international organizations responsible for food and agriculture.

In carrying out its international programs, OICD utilizes a variety of funding sources including direct appropriations, excess foreign currencies, reimbursements from the Agency for International Development, international organizations and from developing countries on an advance funding basis.

Programs funded through appropriations, and those funded from other sources, create a mulitiplier effect. Participation with other federal agencies, the university community and foreign governments all result from the budget available to OICD that is used to generate world-wide involvement in programs of benefit to the United States. While the amount available to fund these programs is small, the net result is many times larger in terms of aggregate involvement.

Program Objectives

We believe our programs benefit American agriculture while contributing to the solution of worldwide food and agricultural problems. Specifically our program efforts are guided by the following objectives:

* To assure that American agricultural interests in trade, global food security, and international development are fully represented in the scientific and technical policies of the U.S. Government and international organizations.

* To make efficient and creative use of the agricultural technology available in the USDA, universities, and agribusiness in international agricultural programs.

* To assure that the research and exchanges resulting from cooperative agreements with other countries are of benefit to American producers, agribusiness and scientists.

* To assist in the economic development of the developing countries and to raise incomes of their people through technology transfer.

The Role of USDA in Agricultural Cooperation and Development

USDA is the largest single source of agricultural expertise in the world.

It shares its knowledge with other nations to help them grow more food, improve rural life, and contribute to economic growth and development. USDA leaders have traditionally felt that by solving agricultural problems abroad, food production can be increased, economic and rural progress fostered in both developing and developed nations, income levels increased, trade expanded, and world food supplies made more secure. Through the consolidation of international development responsibilities within OICD, we can address these issues more effectively and efficiently.

USDA recognizes that agricultural development abroad and scientific cooperation with other countries is entirely consistent with U.S. agricultural interests. If people in those countries are to consume our products, they must have the income to buy them. That income must come through economic development. Agricultural trade interest groups increasingly have recognized this and are participating in cooperative technical exchange programs with developing and developed countries.

This principle has led to government-to-government agreements for scientific and technical cooperation. These agreements have demonstrated their ability to open doors for U.S. producer groups. They also provide a focus and forum for their concerns and interests. These agreements have resulted in successful scientific exchanges that serve to familiarize the United States with market requirements and familiarize the other party with our products, regulations and trade policies, enhancing the climate for market development. Such exchanges also increase U.S. scientists' access to scientific information beneficial to U.S. producer groups.

USDA's international cooperation and development programs make a direct contribution to the success of U.S. agriculture in terms of improved markets for our exports and scientific advancements that contribute to the productivity of our domestic agriculture. The actual and potential benefits that we realize from these limited resources are substantial. In the recent report by the Congressional Office of Technology Assessment entitled "An Assessment of the United States Food and Agricultural Research System," it was suggested that the United States would be one of the chief beneficiaries of any efforts designed to improve worldwide cooperation in science and technology.

I will illustrate this by highlighting some of the contributions made by our programs to several of the goals Secretary Block believes are an important part of the USDA mission.

These goals include a strong, healthy agricultural economy; food and fiber policies for peace and economic growth; the conservation of soil and water resources; and the improvement of agricultural research and extension.

A Strong, Healthy Agricultural Economy

The programs of OICD contribute directly to the goal of a *strong, healthy agricultural economy* here in the United States. Our programs facilitate trade and market development objectives, provide opportunities for increased productivity, improve the protection from disease of American livestock and crops, assist in the collection of agricultural statistical data and information, and improve the environment for U.S. agribusiness investment within other countries. Some specific examples include:

Improved productivity of soybeans and swine: Soybean germplasm samples collected during recent scientific exchanges with China are currently being studied and classified in USDA and university laboratories. Through the identification of new soybean varieties, there are great possibilities for cross-breeding which can result in the development of genetically superior soybean plants. There is strong evidence that the swine genetic resources of China offer a potential of increasing the average number of pigs per litter while reducing the gestation period. This will lead to increased pork output with a reduction in the size of the breeding herd which is of clear interest to both producers and consumers in the United States. An exchange agreement to work with the Chinese in this area has been approved by both sides, and work will begin in 1982.

Increasing Timber Production in the United States: U.S. scientists are keenly interested in studying the environmental influence and ecological factors that result in a remarkable growth rate in the Monterrey Pine (*Pinus Radiatia*) in Chile. While the natural habitat of the Monterrey Pine is the United States, faster growth and subsequent increased timber yield has been realized in Chile. This year exchanges will begin to determine what factors contribute to higher growth rates and how to apply those findings to domestic production.

Low Pressure Storage Preserves Perishable Fruits: Polish researchers have discovered the optimum low pressure (hyobaric) storage conditions for apples, cherries, tomatoes, strawberries, raspberries, blueberries and plums. The work will allow American fruit producers to prevent rot development and other post-harvest losses for these perishable commodities.

Increasing Investment Opportunities for U.S. Agribusiness: Private U.S. agribusiness joined forces with USDA to facilitate and support the development of agribusiness in Nigeria. The United States-Nigerian Joint Agricultural Consultative Committee (JACC) provides a vehicle for investment in Nigeria by United States and Nigerian agribusiness on a joint venture basis. American agribusinessman are supporting this effort enthusiastically with over 60 companies directly involved in the program.

Food and Fiber for Peace and Economic Growth

The programs of OICD contribute to carrying out the Department's food and fiber policies for peace and economic growth that in turn play a role in the United States Government's goal of a more peaceful world. The importance of food and agriculture to the success of individual economies in both developing and developed countries cannot be overemphasized. OICD's technical assistance, training, agribusiness, international research and scientific and technical exchange program activities lead to better relations with many countries. These activities and the multilateral food and agricultural efforts have an impact on increasing the economic well being of people in many countries. In food deficit countries, these programs lead towards increased agricultural productivity and the availability of food for hungry people.

Activities that Encourage Peaceful Cooperation in the Middle East. OICD manages a substantial development assistance program in Saudi Arabia. The primary objectives are to recycle "petro dollars" and to assist the Kingdom of Saudi Arabia in its efforts to increase agricultural production through the transfer of technology and by strengthening the Ministry of Agriculture and Water as an institution. The total cost of operating this program is paid for by the Saudi Government. Major accomplishments include completion of a soil survey for the Wadi Dawasir area, the initial project in a Kingdom-wide soil survey program. A pilot project using the Area Frame techniques to improve the agricultural statistics base is to be expanded Kingdom-wide. The establishment and staffing of a Data Analysis Center for the Ministry has provided a significant instrument to help plan and manage agricultural production. On the investment side, a pilot fruit processing plant has been built and personnel have been trained by a USDA technician. A direct result of this has been the purchase by Saudi Arabia of a full-scale fruit processing plant from U.S. firms at a cost of over $2 million.

Cooperative agricultural research also can contribute to the goal of international peace. To strengthen peace efforts that began with the Camp David accords, Egypt and Israel have agreed to pursue joint research and other agricultural programs. They also have indicated interest in including the United States in such programs. As a result, OICD is helping principle investigators revise an Egyptian-Israeli-United States agricultural research proposal recently approved in principle for funding by AID. OICD will participate in a trinational steering committee which will determine the most productive ways to promote cooperation in agricultural science among the three countries.

Cancun Initiative Provides for Technical Assistance in Agriculture: In direct response to the President's proposal at Cancun, representatives of USDA, in cooperation with AID, are participating in advance planning teams in Peru, Thailand, and Liberia to outline the scope of work for Presidential Agricultural Development Missions early in 1982. USDA has also undertaken the preliminary work for a possible Presidential Mission to the non-AID country of Venezuela for the purpose of increasing agricultural cooperation between the two countries. USDA involvement with the Cancun initiative is being coordinated by OICD.

Increasing Food Production in Food Deficit Developing Countries: USDA, in cooperation with AID, contributes directly to increasing the productivity of the agricultural sectors in food deficit developing countries, thus decreasing the number of hungry and malnourished people.

For example, in Botswana substantial progress has been made in improving the agricultural productivity and distribution of food within the country. During the past four years, work in Botswana was done to improve the long range planning in agriculture and the development of a framework for accurately projecting crop and livestock production. Other parts of the program dealt with the adaptability of different crops to the soil and climate of the country and improved systems of livestock marketing.

The result of the work in production and marketing has helped bring about an improved agricultural economy. Furthermore, it has resulted in trained Botswanian technicians who can continue the work initiated during the USDA presence. Another achievement has been the enhanced ability of Botswana to buy more U.S. goods and services.

In the Sahel, a Regional Food Crop Protection program is developing including the implementation of an integrated pest management system. The work has reduced the tremendous pre- and post-harvest losses in a region which has become increasingly dependent on emergency financial and food assistance. With increased and stable basic food supplies, the Sahelian nations are more able to develop forward-looking agricultural sector planning, to participate more fully in commercial international agricultural trade, and to provide more of their own basic food needs. USDA efforts have resulted in improved relations with the Sahelian countries and more commercial trade.

Human Resource Development for Agriculture: Trained manpower is essential to the improvement of agriculture and sustained food production in developing countries. Training activities are closely associated with our technical assistance, research and scientific exchange efforts. OICD annually organizes and administers academic and nonacademic training programs in the United States for approximately 1,900 agricultural administrators, scientists and technicians from 100 countries. These programs, primarily funded by AID, are conducted in cooperation with universities, other USDA agencies and private sector organizations. Short technical and management courses in many fields of agriculture respond to developing countries' escalating need for specialized manpower training. Participants in the courses are frequently mid- and senior-level agriculturalists, many of whom are destined for positions of responsibility and influence.

Conservation of Soil and Water Resources

To help sustain and increase the productivity of agriculture in the United States and worldwide, the conservation of soil and water resources is a goal of USDA and an element in OICD's programs. For example:

Soil Erosion Control: Under cooperative agreements with China and Mexico coordinated by OICD, soil erosion control and drainage and sedimentation technology projects are designed to share the latest research results on a subject area of increasing concern in the United States. In Greece, similar work is being conducted on sedimentation yield prediction and control. A project has also been developed on management requirements for hilly arid lands that will tap Greek expertise in developing such requirements. In Haiti, where soil erosion problems are considered the worst in the Western Hemisphere, OICD, in collaboration with SCS and AID, is working with the government of Haiti (GOH) to develop a Division of Natural Resources within the GOH Ministry of Agriculture to combat the problems of soil erosion. The project has focused on pilot soil conservation demonstrations at strategic locations, soil survey, development of soil conservation guidelines, development and initiation of long- and short-term training programs (especially on-the-job training), and formation of formal farmer associations to facilitate the implementation of soil conservation activities.

Improved Research and Extension Programs

Another goal of the Department is to improve research and extension programs that lead to increased productivity in agriculture at lower costs of production in terms of dollars and depletion of the resource base. OICD is continuing to supplement domestic research with cooperative international research programs, to exchange scientific information with developed and developing nations, and to maintain university linkages with foreign institutions. These programs contribute measurably to improvements in agricultural production, storage, processing, and utilization. Some examples of these efforts are:

African Swine Fever Controlled: In 1979, OICD, in collaboration with the Animal and Plant Health Inspection Service (APHIS), entered into an agreement with AID and the Government of the Dominican Republic (GDR) to provide assistance for the eradication of African Swine Fever from the Dominican Republic. This disease was successfully eradicated from the Dominican Republic by mid-1981 and the GDR is now in the process of restocking the country with improved breeds of swine, some of which are being purchased from U.S. breeders. One of the principal benefits of this program is the prevention of the spread of the disease to this country. If the disease were to infect the U.S. hog industry, it is estimated that a long-term control and eradication program would cost $560 million over a 10-year span.

Improvement in Greenhouse Technology: A cooperative program is underway with the Netherlands using greenhouse technology to increase and improve agricultural production. The Dutch are world experts in this subject, and the potential results of the project could save the United States hundreds of thousands of dollars in research and energy.

International Research Centers Benefit the United States: Among the international organizations with which OICD works is the Consultative Group on International Agricultural Research (CGIAR), a worldwide system of major international research centers. The centers and their outreach programs stimulate and strengthen national research institutions and programs, particularly in developing countries. The interaction of these many centers multiplies knowledge and contributes to new high-yield varieties of crops and increased production in the United States as well as other countries.

University Linkages Contribute to U.S. Research Efforts: The re-establishment of linkages between U.S. universities and foreign counterpart institutions provides excellent opportunities for the United States to undertake scientific and technical research projects of worldwide interest. USDA contributions are more than matched by contributions to the joint projects by U.S. and foreign institutions. As an example of this type of financial cooperation, the University of Arizona linkage with Brazil's Universidade Federal do Ceara is receiving enthusiastic support from several Brazilian agencies. The Bank of Northeast Brazil has committed $93,000 to the joint effort, and the Brazilian National Research Council is providing additional financing to support the university's contributions. Other examples of these linkages include:

> Texas A&M University - Instituto Tecnologica y de Estudios Superiores de Monterrey and Escuela Superior de Agricultura "Antonio Narro," Mexico: Work was started on teaching pecan management techniques to Mexican and American students who will form the field support for integrated pest management research. Selections have been made of bufflegrass genotypes from widely separated geographical origins for a cooperative research program. Bufflegrass is a hardy, drought-tolerant range grass suited for conditions found in Southwestern United States.
>
> Cornell University - Nanjing, Agricultural College, People's Republic of China: A number of students as well as senior scientists from China are now at Cornell. Research is being conducted on new apple varieties from China which are especially promising. Also work is being done on biochemistry and basic plant biology.
>
> University of Nebraska/Oklahoma State - Instituto Colombano Agropecuano Colombia: These institutions are collaborating to: develop a technology base for expanding soybean production into non-traditional land areas; assess the effectiveness of research methodology and statistical techniques in evaluating cattle breeds used in Colombia, Nebraska and Oklahoma; and determine the primary criteria involved in new technology adoption decisions by small farmers.

ISEC Ties USDA Programs to U.S. Universities: Major involvement by the universities takes place through the International Science and Education

Council (ISEC), a joint instrument of the Department and the land-grant association. The purpose of ISEC is to encourage and arrange joint planning and implementation of international programs. Participation by the universities through ISEC leads to the development of stronger ties to USDA's priorities and objectives. The success of many of OICD's programs is based on cooperation with state universities. One-third of the scientific experts participating in our exchange programs are from the universities and the private sector. One objective is to improve the distribution of the results of exchanges and other cooperative programs, to benefit and strengthen the U.S. agricultural sector.

FY 1983 Budget Items

For FY 1983, it is the plan of OICD to continue to develop and implement programs that are in support of Secretary Block's stated goals for USDA. We will accomplish this by continuing the types of program activities that I have talked of today.

The specific OICD budget request for FY 1983 focuses on those activities that are funded by direct Congressional appropriations. Our FY 1983 budget is designed to maintain established program levels. This can be accomplished by maintaining FY 1982 appropriations levels with the following two exceptions: the Foreign Currency Program and annual salary increases.

Foreign Currency Research Program: We are requesting the re-instatement of $3 million for the Foreign Currency Research Program. This program has received favorable consideration by this Committee since 1959; however, no funds were appropriated for FY 1982. We are, however, maintaining a minimal program in FY 1982 by using funds available under the Continuing Resolutions and unobligated balances from prior years. The research performed under this program utilizes U.S.-owned foreign currencies that accrued through P.L. 480 sales from 1959 through 1971. We are requesting funds to meet minimum research commitment levels in India and Pakistan and to maintain existing research in Egypt, Morocco and Tunisia. The benefits to U.S. agriculture from this program are well documented. A few examples are:

Control of Gypsy Moth: Two insects which parasitize the gypsy moth that defoliates deciduous trees in the Northeastern United States have been found in India. The tiny wasps were first identified in a research grant completed several years ago. The two Apanteles species are the most promising control agents imported for gypsy moth control in the past four years. Mass rearing and release of Apateles Flavicosis is planned by the states of Pennsylvania and New Jersey to control the emergence of gypsy moth caterpillars in 1982.

New Control Method for Several Weedy Species of Dock: Researchers have found a new control method for several weedy species of dock (Rumex sp.), a major weed pest in the Southeast, as a result of a Foreign Currency Grant in Pakistan. ARS scientists in Mississippi and the Commonwealth Institute of Biological Control in Pakistan have discovered a small weevil of the Apion species which feeds exclusively on dock.

Twenty-Nine New Salt-Tolerant Rice Varieties: In Egypt, research on the development of new rice varieties tolerant of high salt soils has furnished 29 new varieties for evaluation and possible incorporation into U.S. breeding programs. The exchange of genetic material and disease specimens has also furnished new material to U.S. geneticists. The new germplasm is providing new sources of resistance to rice blast and brown spot diseases which U.S. farmers have found to cause significant reductions in rice yield.

Annual Salary Increases: For the salaries and expenses appropriation, we are requesting an increase of $0.1 million for the portion of pay increases effective in FY 1982. The cost of the increase was absorbed in FY 1982, but budget support is needed for these increases in FY 1983.

Conclusion

Last July, Secretary Block described the USDA concerns with global food problems and the USDA program to address these problems before the House Committee on Agriculture. He assured the Committee that the United States will protect its agricultural resources to insure its continued role as the world's major supplier of food in international trade. He stated that the United States will continue to meet short-term food needs of people caused by natural disasters and political disruptions. He also stated that the United States will continue to make major contributions to improving the long-term global food production capability, to support agricultural research, and to exchange research results with scientists worldwide.

In closing, OICD and USDA are proud of our efforts to address these international food and fiber concerns. We are aware of the challenges. We have met and will continue to meet these challenges through effective management of available resources and directing resources to programs that demonstrate the greatest potential return.

BIOGRAPHICAL SKETCH

HAL G. WYNNE, JR.

Hal G. Wynne, Jr. is the Budget Officer for the Office of International Cooperation and Development. He is a native of San Diego, California and holds a B.S. degree in business from the George Mason University and a M.S. degree in finance from the George Washington University.

Mr. Wynne began his career with USDA in 1977 as a Budget Analyst with the Foreign Development Division of the Economic Research Service. Prior to coming to USDA, Mr. Wynne was a Program Analyst for the Naval Air Systems Command, Department of the Navy and served with the U.S. Army in Vietnam.

Mr. Wynne and his wife Cynthia have one child and reside in Alexandria, Virginia.

INTRODUCTORY REMARKS

Senator **Cochran**. We invite you to make any introductory comments you might have.

Mr. **Lodwick**. Thank you, Mr. Chairman. We appreciate this opportunity to appear before you and your associates on the committee.

Let me, in order to conserve time, turn the testimony over immediately to Mr. Smith, the Administrator of the Foreign Agricultural Service.

Mr. Chairman, I would add that it is one of the fine things that we see take place in our Government to see employees accorded the opportunity for additional service, and so on. Because of the legislation passed by Congress recently, Mr. Smith is now, along with some associates, one of those known as a foreign service officer in addition to being the Administrator of the Foreign Agricultural Service. Not only that, but also he has the very high rank of minister as a foreign service officer. In fact, he is the only one in the Department of Agriculture who does.

Senator **Cochran**. Thank you very much, Mr. Secretary.

Mr. Smith, you may proceed.

SUMMARY REMARKS

Mr. **Smith**. Thank you very much, Mr. Chairman. I appreciate very much the opportunity to be with you today.

Before I get into some summary comments, I would like to make one introduction. I would like to introduce Alan Tracy, who is our General Sales Manager and basically responsible for oversight of the Public Law 480 credit and/or market development program. He is here to participate in the question and answer session.

As you indicated, we will submit the testimony for the record and add a few highlights that I would like to comment on.

I don't think I need to tell this committee how important agricultural exports are to the total agricultural situation in this country. We have had a lot of success in increasing agricultural exports over the past several years. In fact, we have had almost uninterrupted growth in terms of both value and volume. Unfortunately, this year the forecast indicates, for the first time in 13 years, we are going to have a reduction in the value of our agricultural exports. However, we still forecast the volume to be up slightly.

I think the reasons for this decrease are several. High on the list is the economic situation we are finding ourselves in, not only in this country but also around the world. This has had a major impact on the livestock complex and the poultry complex in the world. If you look at the trade numbers in terms of the components of the agricultural export picture, feed grains is really the basic problem. We have had a phenomenal growth in feed grain exports over the past 5 years. Our exports increased by about 20 million tons in that period. This year, because of reduced demand abroad, we are going to see a $2.5 billion reduction in feed grain exports. That is quite a significant swing. When you add on top, the across-the-board price problems we are having, this accounts for the basic decline in agricultural exports.

If you look down the array of other products, most of them are going to hold or be slightly up, except in the case of rice which is also a major problem. Sugar exports will be down too, but that is mainly because of a change in the economic situation where we imported a lot of sugar, then refined it, and then exported it under the kick-back provision.

STRENGTH OF DOLLAR

In addition to the economic situation, the stronger U.S. dollar is having some impact. We are all very pleased for the dollar to be strong, but sometimes we forget as the dollar gets stronger, it means the cost to importing countries in local currency units is higher. As a result, imports are not seeing the bargain prices that we have now in this country, particularly for our feed grains, being totally translated into lower costs in the user countries. This is somewhat dampening the demand. I don't want to dwell too much on the effect of the increased value of the dollar, but it is a factor.

INTEREST RATES

I think the high interest rates are another problem where countries that normally would be carrying a lot larger carryover stocks are now willowing those down to minimum levels. I think they are waiting to see what happens to prices. Until they are convinced that prices are going to increase and they see lower interest rates, there are no incentives for them to carry more stocks.

COMPETITOR MARKETS

We are also seeing a lot of growth in commodities being provided by our competitors. I think a lot of that can be laid at the feet of the embargo we recently had. We not only see an increase in production and yields, but area increases as well. This is particularly true in Argentina where there has been a sizable increase in area planted to grains. Most of this, I think, was the result of the signal we sent when we embargoed grains to the U.S.S.R. They didn't waste any time in taking advantage of it.

Also, associated are record crop productions in many of the countries that import from us. The best example is Mexico, which has been a market for between 6 to 10 million tons of grain. This year, we think, it will probably be only around 3 million tons. They had an unusal weather pattern this past season, and production is way up. There are several other examples of that around the world.

UNFAIR COMPETITION

Finally, to some extent, we see production increases resulting from protectionism and what we consider unfair competition from subsidized exports, mainly out of the European Community. This year we are forecasting grain exports for wheat out of the EC of 14 million tons. We could very well see that get up to a 20-million figure in the next few years unless something is done to turn this around. Basically, this production is coming from very, very high internal support prices within the Community, which is resulting in what we consider uneconomic production. The only way to take care of the problems as far as the EC is concerned is to export with very, very high subsidies, which means in essence U.S. farmers are having to compete with the EC treasury. This is having a major impact on our ability to export. Our estimates show that the increase in EC wheat exports the last 2 years has caused a decrease in the U.S. producer prices for wheat, and therefore, the world price by 50 to 60 cents a bushel.

We are also working hard to try to get Japan to take a little more reasonable posture in terms of their imports. We think if we could get them to liberalize, there would be some very good opportunities for increased exports.

FUTURE PROSPECTS

Looking down the road, even though we have seen a readjustment period now in terms of our trade, we still think the factors are there for continued growth or resumption in growth of agricultural exports. Population is increasing around the world, and as countries come out of the economic problems they are in now—I think it is particularly true in the less developed countries [LDCs] who have not only been hit with the general economic problems, but also with the oil crunch which has been a major problem for them in terms of foreign exchange balances—and as they expand, you are going to see increased demand for protein, especially meat. As these countries develop, there is going to be a tremendous pull for our grains and oilseeds.

I use the example of Mexico, where I served as agricultural counselor. I remember when I was there roughly 7 years ago. Mexico was exporting over 20 million pounds of beef and about 1 million head of cattle to us every year. They were at one time a net exporter of grains. Now all of the large exports of beef and live cattle have almost disappeared, and internal consumption is up greatly. Although they had good weather and good production this last year, our prediction is that the increasing consumption trend is going to continue. As that takes off and their income increases, then I think we will see a resumption of our agricultural exports to that country. We also look to the LDCs as being areas where there will be a lot of import growth.

NEW TECHNOLOGY FOR INFORMATION DISSEMINATION

Just quickly, in FAS the things we are concentrating on right now are three major areas of work which support agricultural exports. The first area is the whole program of information gathering analysis. We are trying to do everything we can to use the latest technology in order to gather information, transmit it to Washington and out to our farmers and traders who want to use this information in making decisions. We are interfacing with the U.S. State Department computer worldwide network which they are setting up using electronic equipment in embassies overseas. These overseas offices are being interlinked with high-speed communication lines. We bought some minicomputers that will, in turn, interface with State Department equipment and will cut down on the time it takes to get information in from the field from, currently, say a 2-week average down to hours in a day. We are also working with various groups in our country to get this information disseminated electronically. We are currently using AGNET Central, which is affiliated with the University of Nebraska. They have a computer system that enables farmers and other subscribers, with a minimum investment, to use a telephone to hook into and call up whatever information is available. We are presently providing weekly foreign agricultural information to that system and plan to go on a daily basis with trade leads. We hope to speed up the dissemination process and get information out to end users quicker, so they can make better decisions on marketing and export trade opportunities.

TRADE ACCESS

I have already touched on trade access. We are concentrating on trying to get the European Community to take a more reasonable stance on their trade policy, particularly the use of the export subsidies. In Japan a major effort is underway to get them to open up that market which, we think, will be very beneficial to all.

MARKET DEVELOPMENT EFFORTS

In the case of market development, in this time of tight budgets, we are doing everything we can to prioritize our efforts. We are looking at where we think the high priority commodities are and where we think the high priority markets are overseas. We are doing everything we can, working in tandem with the industries who are partners with us in this effort, to take advantage of what we think are the best opportunities overseas. In that effort we are including credit, which can be very important in terms of competion with many of our competitor countries overseas.

1983 BUDGET REQUEST

As far as the budget request, as you indicated in your opening remarks, we are requesting $79.2 million for 1983, which is an increase of about $11 million over our 1982 budget. We are asking for a $1.2 million increase in real growth in our cooperative programs for new activities which came out of that new budgeting and planning process that we developed in FAS.

For overseas inflation to keep our programs at current levels, for both our cooperative program and our attaché programs overseas, we are asking for $4.2 million. Restoration of pay costs is roughly $1 million.

LANDSAT DATA ACQUISITION

Acquisition of Landsat data is $7 million. Previously, we were not charged for the Landsat data which we are using in an effort to do a better job of forecasting changing crop conditions around the world. A decision was made by the administration to charge the user agencies, and the $7 million is our portion of that amount associated for this activity, formerly funded under NASA. It is not a new program; it is just changing the method of budgeting this money.

STAFF YEAR REDUCTION

We are reducing our staff years in the overall effort to reduce employment in the Department. We are taking a 30-staff year cut, which comes out to about $2 million. These changes give us a net increase of $11.5 million.

For operation of the office of the General Sales Manager, we are asking for $5.6 million, which is up about $200,000 over the previous year. We are asking for $1.5 billion in program level for Public Law 480, which is about a $28 million increase. For budget authority it is slightly over $1 billion, which is also about a $28 million increase.

Finally, for the export credit guarantee, we are asking for $2.5 million, which is the same as previously authorized.

With that summary, I will conclude.

Senator **Cochran**. Thank you very much, Mr. Smith.

Senator Kasten, do you have any questions?

Senator **Kasten**. Thank you, Mr. Chairman.

Mr. Secretary, I hope when you gave Mr. Smith all these new titles, you also gave him a huge increase in pay.

Mr. **Smith**. I would like to say with the new titles and 35 cents, I can get a cup of coffee.

Senator **Kasten**. I used to work for my father. One day he made me the vice president, and there was no increase. About 6 months later I became secretary of the company, and still no increase in pay.

Mr. **Smith**. I know the feeling.

DAIRY AMENDMENT

Senator **Kasten**. Mr. Secretary, on March 22, I wrote to Secretary Block expressing my concern and disappointment that the Department failed to immediately implement the provisions of an amendment which I sponsored, working with Alan Tracy and other people at this table, in the 1981 farm bill which essentially would move more milk into the Public Law 480 program and thereby reduce storage. I understand that the Department is now getting ready to use the authority provided in my amendment to lower the CCC charge for milk used in the Public Law 480 program. However, what I am concerned about are reports that the more than $17 million in savings from the reduced cost of milk in Public Law 480 will be used to purchase increased supplies of grains or rice rather than more milk. When Secretary Block testified before the subcommittee last week, I asked him the same question. He was unable to verify this or address my concerns. If he knew anything, it seemed he didn't care about it. We haven't heard a thing from him or anybody in the Department. Could you explain, first of all, why the Department failed to act promptly on this amendment?

Mr. **Lodwick**. Senator, the Department, a week ago Monday, sponsored a hearing in Kansas City that addressed itself to the whole dairy situation. As we all know, the dairy situation that confronts us today is very, very serious. As a result of the many suggestions that were made and the analysis of them that is going on now, we proposed to come out with a program that will remedy the situation. Part of that program, Senator, is the amendment that you offered and was passed. We certainly intend to take a very close look at that and see if that can be incorporated some way into resolving the dairy problem.

We look at the dairy problem as two things. One is what to do with what we have on hand right now, and the other is how to prevent taking in the quantities that the Federal Government is taking in.

In answer to your question about the possible savings and how they might be used, I think first of all we said we are going to have to look at the savings, and then analyze how best they can be used. Certainly, the disposition of the dairy products is going to have a very high priority.

Senator KASTEN. I am listening to what you are saying, but I am not satisfied with your answer. I understand what went on in Kansas City, and we had people there in Kansas City. I want to work with the farm community and the dairy industry in terms of self-help programs. But that has nothing to do at all with the amendment that we passed 6 or 7 months ago in which we were going to make some savings now to allow you to start immediately to distribute dairy products. That was the point of the amendment. You haven't done that. First of all, why not? Is the answer that you were waiting for a seminar in Kansas City to discuss self-help programs?

Mr. LODWICK. Senator, we were looking at the whole dairy situation. As far as implementing the amendment, yes, we are looking at it very seriously and would be happy to keep you advised.

USE OF SAVINGS FROM DAIRY AMENDMENT

Senator KASTEN. Is it your intention to adhere to the intent of my Public Law 480 amendment or is it your intention to try to use those savings to purchase increased supplies of other commodities?

Mr. LODWICK. Well, as far as any savings that might result from that, no decision has been made yet. But I can tell you that very high priority to what——

Senator KASTEN. Is it your intention to use the $17 million in savings from this amendment for dairy products or other products? If it is your intention not to use it for dairy products, we might as well withdraw the amendment.

Mr. LODWICK. Senator, that decision has not been made. But I can tell you that very high priority will be given to the additional sales of dairy products due to that savings.

Senator KASTEN. Well, it is my strong feeling that you do not have to reintroduce the amendment. We wrote the amendment with people at this table. The purpose of the amendment was not to have it go to grains; the purpose of the amendment was to have it used for dairy products. If you can't stand here and tell me it is your intention to use those savings of $17 million and 19 cents versus 5 cents for milk, or if you are saying you may or may not use it for dairy products, that is not satisfactory. Are you going to use it for dairy products? When will this decision be made, and who will make the decision? No. 1, are you going to use it for dairy products?

Mr. **Lodwick**. Mr. Senator, we certainly intend to give very serious consideration to using it for dairy products.

Senator **Kasten**. That is a maybe, if I understood you correctly.

Mr. **Lodwick**. As far as any pointblank, absolute statement, Mr. Senator, we would like to see exactly what the circumstances are.

Senator **Kasten**. When will the decision be made?

Mr. **Lodwick**. We would anticipate, Senator—this is March 30—that it is going to probably take us 2 to 3 weeks.

Senator **Kasten**. OK, so we could have that decision in 2 to 3 weeks, within the month of April.

Mr. **Lodwick**. Within the month of April, we will be back to you.

Senator **Kasten**. Who will make that decision?

Mr. **Lodwick**. The allocations of funds, of course, for Public Law 480 are determined by an interagency committee, but the chairmanship of that interagency committee rests with the Under Secretary for International Affairs and Commodity Programs, who is myself.

Senator **Kasten**. Are you presently looking for ways to move more milk or dairy products under the overall title II program this year?

Mr. **Lodwick**. Yes, we are always looking for additional ways to move dairy products, particularly when you look at circumstances under which we are laboring today.

USE OF DAIRY PRODUCTS

Senator **Kasten**. That is the point. No matter what State you are from—I am from Wisconsin, as you know—we are faced with an almost absurd situation in which we see huge quantities of milk and dairy products being put into storage and not being used. At the same time, we see a Department of Agriculture Secretary, who came before the committee last week with a 17-page statement and didn't mention the word milk. We see that all of you really are not aware of and up-to-speed on the efforts that are being made to encourage the use of milk.

We have two problems. One is that we have to do something to manage the supply; the other is that we ought to work to increase consumption. You are talking about cutting out the special milk program. It seems to me when we have this surplus milk, we ought to buy milk for use in the special milk program in our schools. It has to cost us more than 9 cents just to convert milk to dry milk and cheese and store it for several years. We might as well use it.

The same goes for exports. We ought to increase dairy exports. We ought to export more, even if we end up coming in at lower prices.

TITLE II USE OF MILK

I understand in your answer you said you want to use more milk. I understand the tentative 1983 allocation for milk in title II, which assumes the lower price of milk, is actually less than the 1982 level. Can you explain why the Department would propose a decrease in the amount of milk used in 1983 at a time when we are looking for ways to reduce dairy surpluses and storage costs? In other words, your budget request seems to be going absolutely counter to the answer you just gave me. Why have you requested less money when milk is going to be priced lower?

Mr. **Lodwick**. Senator, let me refer your question to Mr. Smith or Mr. Tracy. Mr. Tracy is the gentleman in charge of Public Law 480, and he is the General Sales Manager of the Department.

Mr. **Tracy**. Senator Kasten, first let me say we are very pleased to have been consulted by your staff as you developed this amendment. It was passed with the farm bill in late December. We did begin working on it immediately thereafter; in fact, we had done some preparatory work before that. I should point out it does have a budgetary impact on the Commodity Credit Corporation. So our consultations involved the ASCS, OMB, and others, and we have, I believe, an approach to using this program which should be decided upon very soon, as Under Secretary Lodwick stated.

The title II program for commodities is determined by requests from countries involved or from voluntary agencies that are running the program. These programs are ongoing, often year-to-year projects, that do take a considerable amount of leadtime in planning. We are at this point well into the year for the planning on this year's commodities and on this year's feeding programs. The possibility of reducing the price for milk now, if it is done this year, would create some additional funding available under title II. Assuming OMB lets us keep it——

Senator **Kasten**. You have been at this job for about as long as I have—Alan and I are old friends—been here, and you are talking like a bureaucrat now. My question to you is why the budget request for milk allocation is less this year than last year, if we are trying to aggressively market milk? The Secretary told me this is our top concern, and we want to go out and market milk. But the budget doesn't reflect that, and the lack of activity in this area doesn't seem to indicate that either. Why is the 1983 allocation for milk in title II less than the 1982 level?

Mr. **Tracy**. Well, it is actually up slightly. It is at 85,000 tons as compared to 83,000 tons in 1982. Are you referring to the difference between 1983 and 1982? The request for 1983 is slightly up from this past year but down from 1981. In 1981, we had some emergency feeding programs, and we had additional authorization of funds for title II. For next year, 1983, it will be up very slightly, in spite of the fact that dollars for title II are conditional.

Senator **Kasten**. Maybe our figures aren't the same as yours. Our numbers for 1982 are 89,000 tons of nonfat dry milk, for 1983, 85,000 tons of nonfat dry milk.

Mr. **Tracy**. I worked out an estimate for 1982 of 83,000 tons. At any rate, within the market it is rather flat.

FUTURE TITLE II USE OF MILK

Senator **Kasten**. I don't want to argue about the numbers; I want to argue about the principles and where we are going. Your answer to me is that you are working on it; is that what you are saying?

Mr. **Tracy**. The budget has been cut, and the estimate for the use of milk is roughly the same for 1983 as 1982. I do think that the possibility of a lower price for milk, if it is instituted, will make that more attractive to the voluntary agencies as they continue to develop and evolve their plans. But I am trying to make the point that it is a rather long process with a considerable amount of leadtime. They have multiyear programs of feeding going on in various countries. It will take some time for that to work its way into the system.

TITLE I MILK

Senator **Kasten**. When we worked on this amendment, it was assumed that milk would become a more appealing commodity to title I countries if the price was reduced. After the Secretary uses his authority to lower the price, do you anticipate more countries will be interested in programing milk? In other words, what is the Department doing to encourage use of milk in title I? We were talking about title II before.

Mr. **Tracy**. Milk has not historically been used under title I.

Senator **Kasten**. The last time we used milk was in 1973.

Mr. **Tracy**. Title I does tend to concentrate on bulk commodities, particularly grains.

Senator **Kasten**. That is the point. We have a surplus of milk, and we don't know what to do with it. It ought to be going out at whatever price. People are starving in other parts of the world, and we can help.

Mr. **Tracy**. My boss has asked I accede to him.

Mr. **Smith**. I think the problem we are facing is strictly budgetary. In the case of title II, I think clearly as the price comes down, it will be an incentive for voluntary agencies to program more. The use of it going up would be the intent.

In the case of title I, budgets are being cut. We have commodity allocation. You are going to have to take it away from somebody else to accommodate milk, and with a budget that is declining, it is kind of difficult to start cutting into more traditional commodities such as wheat and rice in order to move milk. I think realistically in the budget environment we are in right now, title II is going to have to be the area where you are going to move milk. I clearly think there will be an incentive to move more milk because of the lower price.

CONCERN OVER DEPARTMENT ATTITUDE

Senator **Kasten**. In title II, we have also worked on this, and the price is going to go down. We are trying to work on additional milk in Public Law 480. We are working in the whole direction.

I have some other questions, Mr. Chairman; I will submit them for the record.

But I just can't express to you how frustrating it is and how dissatisfied I am with the attitude of this Agriculture Secretary and this Department on this whole problem. We have two problems. One is we are producing too much, and the other is we are not consuming enough. It seems to me we should be advocating, at whatever price, the use of the dairy products we have. Hopefully, we won't get into another embarrassing situation as we did with the New Zealand butter sale, which caused all sorts of problems, including public relations. It certainly does not help our public relations when the Secretary of Agriculture digs around and finds a moldy piece of cheese to display to the public. If you were in Kansas City, you were aware of the strong feeling that so many milk producers have about the present surplus situation. We have to change that. It is intolerable, in the Secretary's words. But the way we are going to solve the problem is to start to use more dairy products, and that means we are going to compete with grain and some other commodities. We can lower the price of milk and make milk relatively more attractive than some of the other products. We need to go in this direction, and I am going to demand that you work in this direction. There is a tremendous frustration around, and more and more people can't understand why we continue to buy milk, store it, and don't use it. We have to work out the ways to do this, and I am going to be working with you to do this.

Mr. Chairman, I am sorry I used up more than my time, and I will submit additional questions for the record. I look forward to working with all of you as we push this forward. Obviously, it isn't going to get done unless we push. There are a lot of tools we can use, including tools on this committee, such as your budget. If that is what you are asking us to do, I am prepared to do that. I would hope we can work with you rather than against you.

Thank you, Mr. Chairman.

Senator **Cochran**. Thank you, Senator.

EXPANSION OF MARKET DEVELOPMENT

I notice that in your request for funding you indicate that an increase of $4.2 million would be allocated to foreign market development. I am pleased to see this emphasis in the budget for developing expanded markets abroad for agricultural products and commodities. Do you have any information for the subcommittee about any new breakthroughs in the market development area? We hear a good deal about the enormous trade possibilities that may exist because of the new relationship and initiatives in China. Will this mean a much bigger market for agricultural products in that part of the world?

Mr. **Smith**. Mr. Chairman, I think the best way to answer that question is that we view market development as a medium-term and long-term proposition. It is very hard to be in and out of it very quickly. We are very, very optimistic that potentials exist to expand our exports quite significantly. We are looking particularly to the LDCs—and China fits into that category, where, we are seeing particularly the countries that are in the medium growth category and are starting to expand their economies. We think there is going to be a sizable market developed, particularly for our grains and for our protein meal in the form of soybeans. China has an enormous potential obviously, just looking at the population, and you can come up with all kinds of estimates of what could happen by just increasing a small per capita level of consumption. They do have some limitations, though, one being the foreign exchange situation in China, which is a problem. The other is just the physical capacity of taking a lot larger quantities of grain. Their capacity right now is around 15 million tons. Once you go much beyond that it is very difficult for them to handle it.

TRADE POTENTIAL WITH CHINA

Senator COCHRAN. What is the reason for that? Is that because of the infrastructure and transportation or market within the country?

Mr. SMITH. That is exactly right. It is mostly hand labor, and when you see how they handle it, for example, on the docks and try to get it from the docks into the consumption channels, the system is very antiquated, very labor-intensive, and has some major problems. I think their system is going to have to change, and we think that is one area we can be helpful through many of our programs and by working with our agribusiness in trying to develop a better system. I think there is a tremendous potential, but China is going to have to find a solution for its foreign exchange and infrastructure problem before that potential is fully recognized.

In many of the other LDCs, Nigeria is a good example, where you have a large population growing very rapidly; there are all kinds of opportunities there.

Mexico, I think, is an area where we are going to see a lot of opportunities. You can cite several instances like that. I am very optimistic that the underlying factors are there. The key is to zero in on the ones that have the highest potential and just apply what resources you have in the private sector to go in there and develop them.

OVERSEAS ATTACKS

Senator COCHRAN. Do we now have agricultural attachés in almost all of our American embassies abroad?

Mr. SMITH. Not all of them, but certainly all the important countries from our standpoint. We currently have 74 posts around the world in various embassies. In some cases we cover more than one country from a particular post. We cover 110 countries. So we do cover most of the important countries around the world.

Senator COCHRAN. We upgraded, as I recall, some personnel from agricultural attaché to counselor status. How has that affected the effort to help get more emphasis on selling agricultural commodities overseas?

Mr. SMITH. I think it is very helpful. There were two provisions the Congress passed, the Agricultural Trade Act, which, in essence, authorized the use of the diplomatic title of counselor for our attachés. More recently, the new Foreign Service Act, that the Secretary alluded to in his remarks, was passed which enables the Secretary of Agriculture to use the authorities of the Foreign Service Act. Both of these have resulted in our being able to provide our attachés the title of counselor. We think this is very helpful as a signal that agriculture, particularly agricultural trade, is important. It helps them in countries where titles determine what level you deal with in a country. Some countries are quite conscious of this. So by having this higher diplomatic status, it makes it easier for our attachés, particularly when they get out of agriculture contacts, to deal at a higher level of government, which is useful.

I don't want to make too much of that though. I think in the final analysis we have to have good people overseas, and we have to get down to basic selling. This can be important, but I wouldn't overemphasize it.

AGRICULTURAL TRADE OFFICES

Senator COCHRAN. Also, in the Agricultural Trade Act of 1978 some 25 trade offices were authorized to be established around the world. You currently have 10 in operation, I understand. Is it your assessment from the evaluation that you are conducting of these offices that they are fulfilling an important mission and that the money we are putting into those offices is being well spent? Do you have any information to give us about your assessment?

Mr. SMITH. We sent out some evaluation teams which were made up of our people and industry people to go to six of the trade offices that had been fully operational for at least 6 months and ask that exact question, was this the right direction we are going in? Were we making sense and could we show results? It was almost unanimous, it was felt that they had been performing well and that the objectives had been accomplished. Our policy is to continue supporting them. We did close one in Florida. We had an office in Miami which covered the northern Caribbean and Central America. For several reasons, principally the situation in Central America, we felt that that one was not really meeting the objectives so it was closed. All the other ones got high marks. We would be glad to provide for the record the reports developed by the evaluation teams.

Senator COCHRAN. I would appreciate having that for the record. I would think the committee would find it useful in assessing the appropriation.

Mr. SMITH. We would be pleased to do that, Mr. Chairman.

[CLERK'S NOTE.—The information referred to above appears on pages 625–664.]

ADDITIONAL TRADE OFFICES

Senator COCHRAN. Do you feel the opening of any other offices is indicated at this point or is there any money in this budget for new marketing offices overseas?

Mr. SMITH. Yes, we have in mind the possibility of expanding our coverage. In some cases we haven't really decided whether we are going to call it a trade office or call it an attaché office. We do want to beef up the Middle East trade office.

Senator COCHRAN. We also can sell poultry there in addition to beef.

Mr. SMITH. That is exactly right. One of the problems we have to overcome there is the subsidies of the EC. They are selling at a very highly subsidized price which just about wipes us out of the area. Clearly, the Middle East area is one we want to focus on. We are probably going to again be beefing up the trade office we have there in Bahrain, and we are also thinking of possibly adding a person in Saudi Arabia. We also want to beef up the Vienna office, although given the economic situation there, we are going to have to take a hard look; but we still think there are opportunities there. So we are looking at areas where we could expand. All of this has to come out of the existing resources. As I indicated, we are cutting back on the numbers of people as part of the overall program that the administration has in effect. So we are having to prioritize our posts, and we are comfortable with what we are doing. We think we can find places where we could cut back in order to make these expansions.

TWELVE-PERCENT FUNDING REDUCTION

Senator COCHRAN. In meetings earlier this year with some of the Foreign Agricultural Service representatives, I was told they were under an impression there was a 12-percent across-the-board cut in funding for the office and that there were cutbacks being made to implement this across-the-board cut. Was that word put out in all the offices by you or anybody in the Department? I didn't think it made much sense, because we increased the appropriation last year over and above the request the President made, but we were told there was a 12-percent, across-the-board cut. They didn't believe me.

Mr. SMITH. You can be assured it didn't come out of our office. We feel very fortunate in the environment. As I indicated in our testimony, we are asking for an increase. You are absolutely right; the Congress has been very helpful in this program. As you know, this town loves rumors, and sometimes it is very hard to know how they start. We certainly didn't start that one.

Senator COCHRAN. Maybe the Democratic National Committee wrote that letter to all the employees.

Mr. SMITH. It very well could have.

[CLERK'S NOTE.—See page 621 for further information in this regard.]

Senator COCHRAN. The point is, I think the Congress seems to be fully supportive of expanding our market development activities and feels this is truly an investment of resources that pays big dividends. As a matter of fact, I know you work in cooperation with private business and farm groups. One example is the American Soybean Association, which is a cooperator in the program. I have a letter here that we just received from Charles Hammond, president of the American Soybean Association, which points out in some detail the success of export development activity and how it has resulted over the last 10 years in a doubling of soybean and soybean product exports. As a matter of fact, he says that market development increased soybean export sales revenue an average of $220 for every FAS dollar expended. So this is not the kind of program that throws money at the problem, but it seems to pay big dividends. I think that is why this subcommittee last year didn't take the administration's advice, and we increased the appropriation to help assure that these important programs are carried out. But we do want to make sure we are spending the money wisely and that we are not wasting any of this money. That is one reason we will be anxious to have the finding of your evaluation of these trade offices to see if we are getting our money's worth there.

COOPERATOR PROGRAM

Let me ask you this. I know the U.S. Wheat Association, the Soybean Association, and many other groups of that kind, work in a very aggressive and active way to help increase overseas market activities. Could they function just as well without FAS involvement? To what degree is your office complementing and helping them achieve their result, or could we do without FAS and leave it up to the private sector?

Mr. SMITH. Mr. Chairman, I think the reason this program has been so successful has been the partnership that has been forged between the private sector and the Government. I think it is unique. I am not aware of any other program that has done this, where we view that we have a 50/50 partnership with the private sector. There are things the Government can do, and there are things the private sector can do. Our objective is to work together.

PROGRAM PLANNING MODEL FOR INCREASED EXPORTS

Senator COCHRAN. What can you do that they can't do?

Mr. SMITH. Well, one area that is obviously very important is in the trade access area that we are working in. Another is the area of information gathering that I mentioned. In the market development program, per se, not only the soybean study that you referred to, but a study done by Chase Econometrics, which as you know is an independent organization, showed a very, very high return per dollar invested. We have taken the same kind of approach in the new budget planning exercise to try to quantify the effectiveness of our program and to set priorities on the basis of the export return of various activities. What we have done, particularly in this budget planning exercise, is to go through a very extensive process of identifying what we thought those commodities were that had the highest potential for export. For each of those commodities we identified the countries with high potential for export. With the help of ERS, which is an independent agency, we next established baseline projections as to what we thought exports of the commodities to these markets would be regardless of what new activities were undertaken. Then we established what constraints we felt existed in the markets to increasing U.S. exports and pushing that baseline up higher. We identified these constraints in detail and came up with programs that we thought would resolve these problems. In doing this we worked very closely with the private sector. They participated in this. We wanted to get agreement that we were both agreeing on the priorities. We then costed out what it would cost to implement those programs. Finally, we estimated how much we would increase exports if we carried out the programs. This process gave us some cost/benefit ratios to help us prioritize our activities.

COST/BENEFIT ANALYSIS

It is quite interesting when you take these numbers and put them through the model that Michigan State University has developed. Also the Economic Research Service worked with us in developing the cost/benefit analysis based on the assumption that our export package could be accomplished. We felt we were reasonably sure of it. These models show, for example, the increase that we have asked in here for market development, $1.2 million, have been, by the way, earmarked for specific projects, specific countries, and specific commodities. That is one of the differences in our fiscal year 1983 planning process; we are trying to identify specific programs and keep this identity throughout the budget process. These models would indicate, if that $1.2 million, when you take it and combine it with the money we will get from the cooperator, and this is a very important factor, plus the money we get from third parties, we could increase agricultural exports on the average over 3 years by $223 million, which gives us an impact/cost ratio almost 80 to 1. These models indicate that economic activity in the country would increase by about $457 million per year. This would create 6,300 jobs annually in the economy. Tax revenues would be up by about $40 million a year. The average farm prices would be up about 5 cents per bushel for wheat, 2 cents per bushel of corn, and 7 cents per bushel for soybeans. Net farm income would be up an average of $300 million. It also would reduce Government cost through reductions in deficiency payments by $275 million per year.

So I maintain if we are 100 percent wrong, it is still a pretty good deal. These are not our models. These are independent models. I think very clearly the return that you get for this funding is phenomenal, not only in terms of agricultural exports, but what it does to the whole economy. This pretty much was verified by the Chase study. So I think there is quite a body of research and knowledge that has indicated it will be money well spent.

EXPORT CREDIT REVOLVING FUND

Senator **Cochran**. There has been some discussion about funding an export credit revolving fund to help in the marketing activity. This, as a matter of fact, was authorized in the farm bill that was passed last year. What is your reaction to whether or not that would contribute to export sales abroad? Is it needed? Should we fund it?

Mr. **Smith**. Well, we have absolutely no problem with the concept, and I think the Secretary and everybody has so indicated. It would be a useful tool and could result in additional sales. The problem, as you very well know, is the budget outlay. At this point, given the constraints and outlook in terms of budget deficits, the administration's position is that it cannot recommend funding the export credit revolving fund. So I think, in summary, conceptually we have no problem with it. In fact, I think you are going to see some results. But when you take into consideration the realities of budget debt, we just can't recommend funding it.

Senator **Cochran**. I know you haven't requested funding. But if the credit fund would have funds appropriated, would that have a positive effect of increasing our export sales abroad?

Mr. **Smith**. We think yes.

Senator **Cochran**. Why would it?

Mr. **Smith**. Particularly over a period of time.

Credit becomes a very, very important factor from two aspects. One is, obviously, a competitive tool. But more importantly, the countries that are having the major development potential are LDCs, who have gone through a major crunch because of the oil crisis and are having problems on balance of payments. One figure

I heard the other day on Costa Rica, for example, is that it is now spending something like 40 percent of its foreign exchange earnings on just oil, where say 10 years ago it was down around 10 or 15 percent. That gives you an idea of the magnitude of the problem. So during this period of adjustment, we feel there probably would be some additional sales made. I think that is the key word. It doesn't do you much good to increase credit if you are just dividing the pie up differently. I think you have to get additional sales. We think that there would be some additional purchases made by countries if they got credit which they wouldn't make otherwise. We have done some analysis of this to indicate in our best judgment what would happen over a period of time.

Senator COCHRAN. Do you have that in a report or could you give us an assessment of what would happen if we did fund that program at $250 million or maybe $600 million. There is some difference of opinion about how much would be needed to get the revolving fund started. I would be interested in knowing your assessment of it, knowing you are not requesting the funds. We understand that.

Mr. SMITH. We look not only at the revolving fund, which is direct credit, we are also looking at credit guarantees and a series of things. FAS will be glad to provide that. I think it should be made clear that this is not endorsed by everyone.

Senator COCHRAN. We don't want you to get into trouble.

Mr. SMITH. But we would be glad to provide that.

Senator COCHRAN. If you have that in your office, we would like to have a copy of it.

Mr. SMITH. We will be happy to provide it.

[The information follows:]

Possible Export Credit Initiatives

In January and February of this year, the Foreign Agricultural Service conducted an evaluation of additional exports of major U.S. agricultural commodities that might result from new credit initiatives. The commodity divisions within the Foreign Agricultural Service conducted this analysis on a commodity-by-commodity and country-by-country basis and assuming various credit programs and assumptions. Input was also received from most of our overseas field offices and from "cooperator" export promotion organizations.

The attached summary and tables show the additional exports and other economic and budgetary efforts that might occur under the assumptions as stated.

Assumptions and Guidelines Used in Estimating Quantities of New Export Gain Resulting From New Credit Initiatives

Following are assumptions used:

1. The 6-year, full-guarantee credit program would be used only in those circumstances where there was reasonable assurance that credit shipments would not displace normal trade with other non-subsidizing exporter countries; the program would be used, however, wherever practicable to displace imports from subsidizing countries such as the EC.
2. Neither the 6-year credit nor the GSM-5 (3-year direct credit) would be used where the result would be to displace purchases that would have been financed under the existing GSM-102 program.
3. Only one of the proposed two new programs would be used for one commodity in any one country.
4. In applying the 6-year guarantee program to the PRC, it is assumed that a special exception arrangement would be worked out whereby there would either 1) be a "buy-down" of the private-bank interest rate to something like 7 or 8 percent through a direct expenditure from CCC, or 2) an arrangement whereby a portion of the interest payments from the PRC would be refunded each year for approved use for consideration of new facilities or market-expanding programs.
5. In applying new GSM-5 credits to India, it would be necessary to give some assurance of additional, continuing credit being offered on shipments for one or two subsequent years.
6. The 6-year credit program would be developed under existing authority

for intermediate credit, and would, therefore, be regarded as a commercial export program, exempt from any cargo preference requirements.

7. In any instance where GSM-5 credit would have the affect, either in part or whole, of displacing some exports from third country origins, an estimate would also need to be made of the quantity of such displacement which would be a net gain for U.S. exports, as well as the quantity which would not represent a net gain for U.S. exports because the third-country-origin commodity would displace U.S. commodity in some other market; in any instance where 6-year credit would be used to displace grain from another exporting country that subsidizes its exports, similar estimates must be made of the third country affects so as not to overstate the rate of total U.S. exports.

All of the estimates of credit shipments and net gains for each country are based on the assumption that both new proposed programs will be available; in the event only one of the two new proposed programs is undertaken, there are a number of instances where the need for credit and the possibility for net gain in U.S. exports would be larger than is now indicated in the accompanying data.

Estimated Volume and Value that Could be Exported with New Credit Initiative and Resulting Volume and Value of Net Gain in Total U.S. Exports

	6-Year Full Guarantee		Direct Short-Term Credit (GSM-5) (Revolving Fund)	
Volume	Amount Covered by Loan	Net Gain in U.S. Exports	Amount Covered by Loan	Net Gain in U.S. Exports
Commodity	1,000 MT/Bales			
Wheat	10,480	4,240	2,600	950
Corn	4,700	1,870	910	300
Rice	475	275	360	202
Cotton (1,000 bales)	16	11	322	297
Soybeans	50	50	510	360
Soybean Meal	0	0	500	300
Soybean Oil	35	35	220	175
Value				
Commodity	$ Million			
Wheat ($170/ton)	1,782	721	442	162
Corn ($120/ton)	564	224	109	36
Rice ($444/ton)	211	122	160	90
Cotton ($370/bale)	6	4	119	110
Soybeans ($270/ton)	14	14	138	97
Soybean Meal ($225/ton)	0	0	113	68
Soybean Oil ($475/ton)	17	17	105	83
Subtotal	2,594	1,102	1,186	646
Other 1/	100	50	50	20
Total	2,694	1,152	1,236	666

1/ Commodities not specifically analyzed, but which might be included in new initiative: wheat flour, lumber, beans, meat/bone meals, tallow/grease/lard, seed potatoes, lentils, onions, tobacco, pork meat, alfalfa and other seeds, poultry meat, beef cattle, dairy cattle, swine, semen, broilers, layers, chicken feathers, corn gluten, leather, malting barley, etc.

2/3/82

Over-All Summary of Costs and Benefits From Proposed New Export Credit Initiatives (Assuming Both New Programs Implemented, Resulting in $1.8 billion additional exports)

	1982/83	Net, full-term period
	(.......$ million	............)
Export credit outlays:		
Direct credit outlay (GSM-5)	1,236	0
Interest outlay on China program	49	99
Default payments on guarantees 1/	0	482
TOTAL	1,285	581
USG Budgetary Savings:		
Reduced loan/deficiency storage costs	1,393	1,393
Increased tax revenues 2/	239	239
TOTAL	1,632	1,632
Net USG Budgetary Effect	+347	+1,051
Increase in net farm income	1,326	
Increase in over-all economic activity	3,600	
Additional jobs generated	36,000 (jobs)	

1/ Assumes 12% defaults on total principal and interest.

2/ Assumed equal to 18% of extra net farm income; does not include extra tax revenue from extra economic activity generated in associated industries.

(Based on Coefficients Provided by World Food Board)

	If Only 6-Year Guarantee			If Only GSM-5 Revolving Fund			If Both Programs are Used		
	Resulting Price Increase	Reduction in Outlays 1/	Net Increase in Farm Income 2/	Resulting Price Increase	Reduction in Outlays 1/	Net Increase in Farm Income 2/	Resulting Price Increase	Reduction in Outlays 1/	Net Increase in Farm Income 2/
		- - - - - $ Million - - - - -			- - - - - $ Million - - - - -			- - - - - $ Million - - - - -	
Wheat	25¢/bu.	505	400	5¢/bu.	105	80	35¢/bu.	825	610
Corn 3/	5¢/bu.	290	275	To Small to be Significant			6¢/bu.	350	325
Rice	60¢/cwt.	95	40	45¢/cwt.	72	30	$1.40/cwt.	143	125
Soybean Complex (Beans, Meal, Oil)	Too Small to be Significant			10¢/bu.	10	200	10¢/bu.	10	200
Cotton	Too Small to be Significant			2¢/lb.	65	66	2¢/lb.	65	66
TOTAL	NA	890	715	NA	252	376	NA	1,393	1,326

1/ Outlays include deficiency payments and loans/inventory/storage payments; does not allow for the increased tax revenue.

2/ Net increase in farm income = price increase x total production of commodity minus anticipated deficiency payments foregone.

3/ Impact figured for total feedgrains.

New Credit Initiative and Resulting Value
of Net Gain in Total U.S. Exports - by Country

Country	6-Year Full Guarantee		Direct Short-Term Credit (GSM-5) (Revolving Fund)	
	Amount Covered by Loan	Net Gain in U.S. Exports	Amount Covered by Loan	Net Gain in U.S. Exports
	- - - - - $ Million - - - - - -		- - - - - $ Million - - - - - -	
Algeria	–	–	136.0	34.0
Brazil	102.0	34.0	–	–
Cameroon	–	–	2.0	2.0
Chile	–	–	10.4	5.8
China	825.0 1/	273.0	–	–
Colombia	17.0	8.5	–	–
Egypt	371.0	148.0	53.0	51.0
Ghana	9.0	4.4	–	–
Haiti	9.0	4.4	–	–
Hungary	–	–	11.0	0
India	–	–	194.0	109.0
Indonesia	68.0	34.0	25.5	22.0
Israel	–	–	27.0	13.5
Italy	–	–	7.0	7.0
Ivory Coast	–	–	15.5	11.0
Jamaica	2.0	2.0	–	–
Mexico	–	–	28.4	13.0
Morocco	288.0	157.0	–	–
Nigeria	–	–	74.0	33.5
Pakistan	–	–	14.0	14.0
Peru	66.5	34.0	5.0	5.0
Philippines	–	–	43.6	14.7
Portugal	36.0	18.0	51.6	21.0
Romania	253.5	97.5	59.0	38.0
Senegal	–	–	9.0	9.0
S. Korea	193.0	97.0	45.5	32.0
Spain	–	–	5.6	5.6
Sri Lanka	18.0	9.0	–	–
Sudan	34.0	17.0	–	–
Taiwan	–	–	7.4	7.4
Tanzania	9.0	9.0	–	–
Thailand	–	–	12.6	12.6
Tunisia	13.0	7.0	12.0	9.5
Turkey	7.0	7.0	–	–
Venezuela	–	–	24.0	8.4
Yugoslavia	–	–	55.0	43.0
Zaire	18.4	9.0	–	–
Other Countries 2/	253.0	131.0	257.0	124
Subtotal	2,594.0	1,102.0	1,186.0	646.0
Other Commodities 3/	100.0	50.0	50.0	20.0
TOTAL	2,694.0	1,152.0	1,236.0	666.0

1/ Sales to China probably would require a special interest rate structure.

2/ This figure includes quantities of the commodities analyzed (wheat, corn, rice, cotton, soybeans, soybean meal, soybean oil) which might go to some of the countries on the above list in relatively small amounts, as well as to countries not on the list.

3/ Other than the commodities specifically analyzed.

PUBLIC LAW 480 SALES

Senator **COCHRAN**. I heard the other day from a colleague here in the Senate that there had not been any evidence that Public Law 480 sales were being made and that there was a big question about whether Mr. Tracy's shop was doing anything. I was told that they tried to find out how much had been sold under Public Law 480 this year, to whom, and on what terms, and it was a very frustrating experience because of the difficulty in getting any information. The suspicions are, particularly among rice producers, that we are not doing enough to make these sales. It is hard to find out who will assume responsibility for there not being any more activity than there apparently is in this area. Could you help explain what is going on? Is there a place where somebody could make contact to get some information along that line?

Mr. **SMITH**. Yes, I will make some general comments and ask Mr. Tracy to get into some of the details.

I can assure you the lack of progress on getting agreements signed is not due to lack of effort on the part of Mr. Tracy's staff. They have been working very hard at this. We have not moved as expeditiously as we would like to in programming the Public Law 480 commodities. That is particularly true in the case of rice. There have been some interagency problems in developing this position. I think these are being sorted out, and I will ask Mr. Tracy to address that issue directly. I do want to emphasize that we have clearly indicated that our objective is to keep the balance between the amount of funding that is used for rice programing versus other commodities, particularly wheat. Although there was a total reduction in the Public Law 480, we are going to keep the balance between the commodities. We have run into problems on finding programs for rice. Rice is a little more difficult to program than wheat for many reasons, one being the higher cost of rice. But we are committed to that task, and I think we are starting to make progress. I will ask Mr. Tracy to comment further on that.

Mr. **TRACY**. We are also very upset that the process of bidding agreements under Public Law 480 titles proceeded slowly. But we have signed agreements with Bangladesh, Egypt, El Salvador, Morocco, Sudan, Costa Rica and, I believe, the Dominican Republic. We expect a number of other ones to be signed in the very near future.

As far as the dollar value of agreements that are signed now, we are up to $490 million purchase authorization. Purchase authorizations have been issued for $450 million, and sales have been registered for $239 million. So admitting that it was very slow in getting it going, we are making progress.

TITLE II SHIPMENTS

Senator **COCHRAN**. What about in the case of humanitarian transfer of rice or any other commodities? We funded that aspect of the program too. Do we have any indication of the moving of grain or other commodities for humanitarian purposes?

Mr. **TRACY**. The humanitarian aid is primarily through title II.

Senator **COCHRAN**. You don't have anything to do with that?

Mr. **Tracy**. Yes, we do; we are involved with it. The Agency for International Development (AID) does take the leadership role in the actual programing and working out of the programs with the voluntary agencies; although, it is in our budget because it involves U. S.-owned commodities.

Senator **Cochran**. Do you have any figures on that or any information you can share with us? Have we given anything away this year?

Mr. **Tracy**. The title II budget is part of our presentation. The title II budget for 1982 was $724 million. The request for 1983 is lower under title II but is higher under title I. The net effect is the $28 million increase Mr. Smith mentioned.

Senator **Cochran**. Has that been fully utilized? Is that being utilized to the fullest extent in this fiscal year?

Mr. **Tracy**. Title II is moving regularly with monthly shipments and procurements. The Title II does also, aside from the regular programing, have authorizations to handle food emergencies. We did have a number of emergencies in 1980 and 1981 that have not been repeated now. So the numbers may be lower because of that in terms of the total utilization of the fund by the State, but it is a regular ongoing program. It should be virtually monthly authorizations and purchases.

OFFICE OF INTERNATIONAL COOPERATION AND DEVELOPMENT

Senator **Cochran**. We have some other questions for FAS, but I am now going to grant equal time to OICD. We don't want you to feel like you are being neglected, because you do have an important function. At this time, we would like to hear from Dr. Wallace. We have your full statement and would ask you to make any summary statements or comments that you would like at this point, Dr. Wallace.

Dr. **Wallace**. Thank you, Mr. Chairman.

I would like to introduce David Daugherty, who is the Senior Deputy Administrator for Scientific Cooperation for OICD.

I am pleased to be here to discuss with you programs and accomplishments of the Office of International Cooperation and Development. We recognize that this is a year of constrained budgets; therefore, we are not asking for program increases. I do want to request the continuation of the very important programs of OICD and cite the contribution these programs make to American agriculture and to the agriculture of countries throughout the world with whom we cooperate.

Before I give specific examples of these contributions, I would like to describe OICD's background, responsibilities, and objectives and talk about the role of USDA in international agricultural cooperation and development.

BACKGROUND AND RESPONSIBILITIES

OICD was established to manage, facilitate and execute USDA's policies and programs concerned with cooperative international agricultural research and scientific exchange, and to assist developing nations in improving their institutional capabilities in agricultural production and rural development to combat hunger and malnutrition.

OICD directs USDA's AID-supported and country-funded international training and technical assistance; manages USDA's participation in cooperative programs of international scientific exchange and research from which there are mutual benefits; provides liaison with international food and agricultural organizations; facilitates USDA's collaboration with the university community in international scientific and cooperative programs; and facilitates American agribusiness efforts in developing countries.

In carrying out its international programs, OICD utilizes a variety of funding sources including direct appropriations, excess foreign currencies, reimbursements from the Agency for International Development, international organizations and from developing countries on an advance funding basis.

Programs funded through appropriations, and those funded from other sources, create a multiplier effect. Participation with other Federal agencies, the university community, and foreign governments all result from the budget available to OICD that is used to generate worldwide involvement in programs of benefit to the United States. While the amount available to fund these programs is small, the net result is many times larger in terms of aggregate involvement.

For 1982, we received $3.6 million in appropriated funds, no money for special foreign currency research, $31.8 million in reimbursements, and $9.5 million from other countries. For 1983, we are only requesting $100,000 for salary increases. We absorbed those increases in 1982, but we cannot continue to do so. We also request $3 million to restore the special foreign currency research programs.

I would like to focus on our programs that are funded by congressional appropriations.

SCIENTIFIC AND TECHNICAL EXCHANGE PROGRAM

Our scientific and technical exchange program draws on the combined resources of USDA, U.S. universities, the private sector, and other ministries of agriculture and their scientists. In the past year, this exchange program included over 400 participating U. S. and foreign scientists working cooperatively in areas of agricultural research of significant potential to the United States.

EXAMPLES OF EXCHANGES

For example, soybean germplasm collected during recent scientific exchanges with China is currently being studied and classified in USDA and university laboratories. Through the identification of new soybean varieties, there are great possibilities for cross-breeding which can result in the development of genetically superior soybean plants. There is strong evidence that the swine genetic resources of China offer a potential of increasing the average number of pigs per litter. This can lead to increased pork output with a reduction in the size of the breeding herd which is of clear interest to both producers and consumers in the United States. An exchange agreement to work with the Chinese in this area has been approved by both sides, and work will begin in 1982.

A cooperative program is underway with The Netherlands using greenhouse technology to increase and improve agricultural production. The Dutch are world experts in this subject, and the potential results of the project could save the United States hundreds of thousands of dollars in research and energy.

U. S. scientists are keenly interested in studying the environmental influence and ecological factors that result in a remarkable growth rate in the Monterrey pine in Chile. While the natural habitat of this pine tree in the United States is California, faster growth and subsequent increased timber yield has been realized in Chile. This year, exchanges will begin to determine what factors contribute to higher growth rates and how to apply those findings to domestic production.

Polish researchers have discovered the optimum low pressure storage conditions for apples, cherries, tomatoes, strawberries, raspberries, blueberries, and plums. The work will allow American fruit producers to prevent rot development and other postharvest losses for these perishable commodities.

OICD is also involved in the agribusiness sector, universities and international organizations.

AGRIBUSINESS IN NIGERIA

Private U. S. agribusiness joined forces with OICD and USDA to facilitate and support the development of agribusiness in Nigeria. The United States-Nigerian Joint Agricultural Consultative Committee provides a vehicle for investment in Nigeria by United States and Nigerian agribusinesses on a joint venture basis. American agribusinessmen are supporting this effort enthusiastically. Currently, there are over 60 U.S. companies working directly with 45 Nigerian companies on trade and investment programs. This is an example of the private sector's involvement with government-to-government initiatives.

The President's Cancun and Caribbean Basin initiatives also provided an opportunity to use agribusiness as a tool for international development.

FOOD AND AGRICULTURE ORGANIZATION

USDA's relations with the U.N.'s Food and Agriculture Organization (FAO) are embodied in OICD interagency working groups which review policy issues on food and agricultural matters. OICD provides leadership within the U.S. Government to develop and strengthen programs at FAO in areas of conservation of tropical forests, control of animal and plant diseases in Africa, and improved nutrition among the most vulnerable groups in the poorest countries. At our urging, FAO is resuming its survey of cotton and other fiber consumption worldwide. U.S. cotton industry representatives are meeting with FAO technicians to formulate the new survey procedures and the coverage.

UNIVERSITY LINKAGES

The reestablishment of linkages between U. S. universities and foreign counterpart institutions provides excellent opportunities for the United States to undertake scientific research projects of worldwide interest. USDA contributions are more than matched by contributions to the joint projects by U. S. and foreign institutions. As an example of this type of financial cooperation, the University of Arizona linkage with Brazil's Universidade Federal do Ceara is receiving enthusiastic support from several Brazilian agencies. The Bank of Northeast Brazil has committed $93,000 to the joint effort, and the Brazilian National Research Council is providing additional financing to support the university's contributions.

Also, in direct response to the President's proposals at Cancun, representatives of USDA, in cooperation with AID, are participating in advance planning teams in Peru, Thailand, and Liberia to outline the scope of work for Presidential Agricultural Development Missions early in 1982. USDA has also undertaken the preliminary work for a possible Presidential mission to the non-AID country of Venezuela for the purpose of increasing agricultural cooperation between the two countries. USDA involvement with the Cancun initiative is being coordinated by OICD.

FISCAL YEAR 1983 BUDGET REQUEST

Our 1983 budget is designed to maintain established program levels. Therefore, we are requesting $3.7 million for salaries and expenses and a reinstatement of $3 million for the foreign currency research program. The foreign currency research program has received favorable consideration since 1959; however, no funds were appropriated in 1982. We are, however, maintaining a minimum program for fiscal year 1982 by using the unobligated balances from prior years. The research performed under this program utilizes U.S.-owned foreign currencies that accrued through Public Law 480 sales from 1959 through 1971. We are requesting funds to meet minimum research commitment levels in India and Pakistan and to maintain existing research in Egypt, Morocco and Tunisia. The benefits to U.S. agriculture from this program are well documented.

EXAMPLES OF FOREIGN CURRENCY RESEARCH PROGRAMS

For example, two insects which parasitize the gypsy moth have been found in India. These tiny moths were first identified in a research grant that was completed several years ago. Mass rearing and releasing of one species are planned by the States of Pennsylvania and New Jersey to control the emergence of gypsy moth caterpillars this year.

Researchers have found a new control method for several weedy species of docks as a result of a foreign currency grant in Pakistan. ARS scientists in Mississippi and the Commonwealth Institute of Biological Control in Pakistan have discovered a small weevil of the Apion species which feeds exclusively on dock.

Researchers have also found 29 new varieties of rice, tolerant of high salt soils, through this research program.

OICD is proud of its efforts to address international food and fiber concerns. We are aware of the challenges. We have met and will continue to meet these challenges through our appropriation, as well as by using the variety of resources available in the Agriculture Department, universities and agribusiness.

Thank you, Mr. Chairman.

Senator **Cochran**. Thank you, Dr. Wallace.

I am very interested in the programs that involve scientific and technical exchange which you described and the 400 participants you mentioned who are involved in these joint research projects. I wonder if there is a request for funds to help pay for the cost of such research projects that you described between Brazil and Arizona? Do you use appropriated funds?

Dr. **Wallace**. Yes, these projects are funded from our appropriation for scientific and technical exchange.

Senator **Cochran**. In addition to coordinating some activities in this area, do you have any program that you administer that provides scholarships for foreign students to come to the United States to study animal or plant sciences?

Dr. **Wallace**. We do not have a scholarship program of that type, although, through the linkage program there is the opportunity for universities to do that. For example, this year we have an agreement with China, through the exchange program, to place 20 Chinese scholars in our universities.

Senator **Cochran**. I am convinced that programs of that kind would do a great deal not only to promote better relations with the countries involved, but also ultimately would help us in our effort to expand and promote our trade relations and inevitably benefit the United States economically.

Dr. **Wallace**. We have found, Mr. Chairman, through our training programs which are funded by AID and sometimes by the countries themselves that what you say is absolutely accurate. We programed about 1,200 policy level people through our training program over the last year.

Senator **Cochran**. Do you know whether or not there is any other Federal program, other than that you just described, that AID administers that would provide scholarships for foreign students to come study agricultural subjects in the United States?

Dr. **Daugherty**. No, I am not aware of any other, Mr. Chairman.

Dr. **Wallace**. Let me ask Dr. Robert Ayling, who is heading our Division on International Training.

Dr. **Ayling**. Senator, there are no Federal programs, other than those administered by AID, that provide agricultural scholarships. AID's programs, which are largely coordinated by USDA, provide extensive training to the agricultural leadership of the developing nations. These programs have proved effective, historically, in speeding up participation in agriculture, trade, and commerce with the United States and in developing long-term political and trade relationships. However, there are no programs currently available to the agricultural leadership of countries recently graduated from AID assistance, and who may still be dependent on external sources for development assistance.

Senator **Cochran**. Well, I would like to work with your office to see if we couldn't develop some program like that. I know we are in an atmosphere of budget cuts and restraint, and I respect the reasons why we are going through this period of difficulty in trying to allocate our resources. But I am convinced there is a place for a program of that kind, and I would encourage you to stay in touch with my office. Maybe we can start developing a dialog which will lead to the development of a program of that type.

I recall recently visiting Alcorn State at Lorman, Miss., and looking at an ongoing research project. There was a person from Nigeria who was working on that project, and he had brought over some plant species which were not known to exist here in the United States. They were developing a program to acquaint farmers in the countryside with some of these plants, some of which were vegetables that turned out to be quite appetizing and popular with those who were trying them. I don't know under what auspices, whether it was AID or Department of Agriculture, that this gentleman was in the country. I understand, though, it was a temporary assignment. He would be going back to Nigeria, and I am sure he would be taking with him a lot of information and expertise that he would not otherwise have had.

I am convinced these programs are very important, and I am glad to see that you have made the request for these funds.

SPECIAL FOREIGN CURRENCY

I do have a question about the special foreign currency research. You mentioned you didn't request any money in the budget this year for that program and that you want to continue that program particularly in India and Pakistan. Did I understand you to say, though, those were funds that were U.S.-owned currency that were derived from the Public Law 480 program? If that is true, why do we need to appropriate money?

Dr. DAUGHERTY. Yes, it is true that this research effort is funded from U.S.-owned foreign currency that accrued from the sales of agricultural commodities under the Public Law 480 program. Though the money is appropriated annually, it is not considered an outlay in the budget. Within the limits of an annual appropriation, we are able to secure currency reservation from Treasury that enables us to utilize these U.S.-owned foreign currencies. Both the House and the Senate last year approved a $5 million allocation for foreign currency. However, during a late night session of the conferees, it was redlined. We think it was a mistake, and we are hoping to get a restortion of these funds. Since the funds did accrue from the sale of agricultural commodities, we think it is appropriate that these currencies be used to promote agricultural research.

Senator COCHRAN. Well, if we don't appropriate the funds in this budget, does that mean some other Government activity ends up getting to use the funds?

Dr. DAUGHERTY. Yes. A number of agencies participate, or I should say compete for the use of these foreign currencies. Unless we receive an authorization from Congress, USDA cannot use them.

Senator COCHRAN. So our appropriation turns out to be an authorization for you to get the funds rather than for some other Government agencies to get them.

Dr. **Daugherty**. That is correct.

Senator **Cochran**. I do recall some information I received a few years ago while I was in Egypt. There was a large amount of Egyptian currency that couldn't be brought out of the country, but it was U.S. owned, and we are obligated to spend it, if it is spent at all, within the country.

Dr. **Wallace**. That is right.

Senator **Cochran**. That is the kind of currency that is the subject of this request.

Dr. **Wallace**. That is right.

Senator **Cochran**. Thank you very much. I appreciate your helping the committee understand more fully the functions of your office and the request that you are making for appropriations this year.

RESPONSIBILITIES OF GENERAL SALES MANAGER

I have one final question, Mr. Tracy, in connection with the General Sales Manager's job. I am a little confused. You work for Mr. Smith, but you answer directly to the Commodity Credit Corporation Board of Directors as well. Am I confused, or do you work for two groups in effect? You are the General Sales Manager. Tell us how that works.

Mr. **Tracy**. I get confused about that sometimes myself. The Office of General Sales Manager was an independent agency until a couple of years ago. It was moved into the Foreign Agricultural Service. I do have certain responsibilities which are assigned to me directly from the Secretary's Office, but I report through the Foreign Agricultural Service and through the office of the Under Secretary.

Senator **Cochran**. Thank you very much. I am still not sure I understand.

SUBMITTED QUESTIONS

You have all been very kind to be here today and help the committee as you have. Senator Boschwitz has provided questions that he would have propounded to Secretary Lodwick had he been here. We will get them to you in writing and ask you to respond to them if you could. We would appreciate that.

[**Clerk's note**.—Senator Boschwitz's questions and the Department's responses appear on pages 699–700.]

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

FOREIGN AGRICULTURAL SERVICE

QUESTIONS SUBMITTED BY SENATOR COCHRAN

FIELD COMMUNICATION

Question: During a recent visit with the Agricultural Officer in Hong Kong, I was told that a twelve percent across-the-board cut in fiscal year 1982 funding was in effect. That, of course, was not the case, but, rather, was apparently the result of old or erroneous communications with regard to the President's fiscal year 1982 September budget alterations.

Why would a field office be operating under such an assumption a month after the appropriations bill had passed?

Answer: We were as perplexed as you were why our field office in Hong Kong was operating under the mistaken assumption that a 12 percent reduction was in effect. Upon investigation, we have discovered that an item which was prepared shortly after the appropriation was passed clarifying the overall budget situation was inadvertently left out of the routine general information cable sent to all overseas posts. We regret the confusion this may have caused.

Question: What is your routine procedure for keeping field offices apprised of budgetary changes?

Answer: Our normal procedure is to send a cable to all posts apprising them of budget developments.

Question: Were there any internal decisions made in the Foreign Agricultural Service to reduce funds or staff in the Hong Kong office?

Answer: We have made a decision to eliminate two American positions in Hong Kong: Assistant Attache and a secretary. The decision was based on the fact that FAS will have to reduce overseas employment by 10 positions in FY 1983. Furthermore, with the establishment of the Agricultural Trade Office in Beijing, China, there is no longer a need for the Assistant Attache position in Hong Kong.

MARKET DEVELOPMENT

Question: One of the Foreign Agricultural Service's prime responsibilities is the development of foreign markets for United States farm products.

Particularly in this difficult economic time for our farmers, what are you doing to expand United States markets abroad for agricultural products?

Answer: We are sharpening the focus of export and credit programs with help from the private sector.

We are increasing our focus on new markets. In fiscal year 1981, almost half of U.S. farm exports went to developing countries and non-market economies. We are requesting $4 million in additional funds for FY 1983 for foreign market development to meet overseas cost increases and to provide for some real growth in the program.

We have intensified efforts to expand grains and oilseeds exports by sending government-industry grain and soybean oil teams into 12 countries with strong market growth potential in Latin America, North Africa, and the Far East. Concrete results include an increase in credit guarantees for wheat sales to Brazil, a P.L. 480 agreement for wheat sales to Morocco, and plans for a pilot noodle plant and a pilot flour mill in China.

We are also experiencing greater participation by the private sector in planning and budgeting for export programs through 55 cooperators. In particular there has been increased cooperator activity in West Africa and Latin America.

There has been record use of CCC credit in FY 1981, $1.85 billion in shipments against $2.2 billion in commitments. We are making up to $2.5 billion available in FY 1982 and in FY 1983.

We are cooperating more than ever with state agriculture departments and 5 regional export associations. We are planning a major national food show in Atlanta in May 1983, which is part of the new emphasis on value-added products.

We have reached an agreement to locate three cooperator offices in China.

We are reviewing the possibilities for expanding Agricultural Trade Office coverage for the Middle East, a rapidly expanding market but with a small U.S. market share.

Question: I notice you request an increase of $4.2 million in the "foreign market development" activity line. I am pleased to see where you place your emphasis. Is that enough to do the job needed to facilitate expanded markets abroad? What was your request to the Office of Management and Budget?

Answer: In view of current budget constraints and with better planning and targeting of existing resources to markets with the greatest export potential, we feel the budget we have requested for foreign market development is enough to facilitate expanded markets abroad. The budget we submitted to the Office of Management and Budget totalled $45.3 million which was approximately $5.4 million above the budget request and a $9.6 million increase over FY 1982.

AGRICULTURAL ATTACHES

Question: My staff and I have had opportunities to meet with Agricultural Attaches at several different posts. I want to complement the Foreign Agricultural Service generally for maintaining the competent group of professionals who staff these important positions around the world.

Will any of the $1.4 million increase in the Foreign Agricultural Service line item for "foreign agricultural affairs" be used to support the activities of the Agricultural Attaches?

Answer: All of the $1.4 million increase requested in the line item for foreign agricultural affairs will be used to support the activities of the Agricultural Counselors and Attaches. The increase will essentially permit FAS to maintain its existing overseas posts at FY 1982 program levels.

U.S. AGRICULTURAL TRADE PROSPECTS

Question: What is your forecast for agricultural exports for the balance of fiscal year 1982 and for fiscal year 1983?

Answer: The current forecast indicates that this year's agricultural exports may increase by 4 percent in volume, to a record 169 million tons. However, the same forecast suggests that agricultural export value will decrease for the first time in over a decade, from $43.8 billion in fiscal year 1981 to $42.5 billion in fiscal year 1982. The current leveling off in agricultural export values derives primarily from a number of factors which have combined over the past three to four quarters to weaken commodity prices. These factors include: record or near record U.S. grain and oilseed crops; sharp increases in grain production in both major competitor and importing countries; generally protracted sluggish worldwide economic performance; and, the rapid appreciation of the dollar against major world currencies. All of these factors act together to weaken demand for U.S. farm products, resulting in decreasing or stagnant U.S. agricultural export flows and commodity prices.

It is difficult to pinpoint the timing and magnitude of a turnaround in U.S. agricultural exports. The current sluggishness was not fully anticipated because there was no comparable precedent which would have led us to believe that all of the aforementioned factors would coalesce simultaneously to impact negatively on this fiscal year's export flows. The cumulative impact has been sufficiently adverse to offset the long-term annual increases in worldwide demand that have helped to increase U.S. agricultural exports from year to year. Currently, if any of these factors reverse, for example, if worldwide economic conditions improve during the latter half of this fiscal year and throughout fiscal year 1983, then there will be a corresponding, positive impact on U.S. agricultural exports. However, the uncertainty surrounding the timing and magnitude of such a reversal prevents us from pinpointing the degree of recovery that exports will register over the rest of this fiscal year and into next fiscal year. Furthermore, U.S. agricultural export prospects in fiscal 1983 depend largely on the production in the Northern Hemisphere where most of the crops have not been planted for the current year.

Question: Do you see future growth in agricultural exports being as large as has been experienced over the last ten years?

Answer: In fiscal year 1980, U.S. agricultural exports totalled 163 million tons at a value of $40.5 billion. This was over two and a half times the fiscal year 1970 export volume of 61 million tons, and over five and a half times the fiscal year 1970 export value of $7 billion. Thus, over the past decade, exports increased at average annual rates of about 19 percent in value and 10 percent in volume.

It is clearly not realistic to expect comparable rates of growth for the 1980's. Perhaps the most important reason for anticipating that export rates of growth in the 1980's will be less than those of the 1970's is that we entered the decade on much higher value and volume plateaus than was the case twelve years ago. For example, absolute increases in export volume and export value equivalent to those achieved during the 1970's--100 million tons and $33 billion, respectively--could be attained in the 1980's at half the annual growth rates which generated the same increases during the 1970's. However, the actual rates of export growth during the 1980's will depend on supply and demand considerations which are, generally speaking, impossible to project with any reasonable degree of accuracy. The uncertainty underlying future world economic conditions, year to year weather variability, production trends in major importing and competitor countries, and long-term commodity price prospects makes any long-term forecast highly suspect. Very simply, while we anticipate that the 1980's will be characterized by continued agricultural export growth—at rates somewhat less than those achieved during the 1970's—it would be presumptuous to attempt to pinpoint the actual export volume and value levels which will be attained by the end of the decade.

REVOLVING FUND

Question: What else could be done to promote agricultural exports? For example, do you have any reading on what effect funding of the recently authorized Revolving Export Credit Fund would have on agricultural exports over the next five years?

Answer: It is difficult to provide precise quantifiable estimates of the impact of the revolving fund on future exports. However, direct credit, under a revolving fund, would complement our existing guaranteed credit program and would be useful in some markets. Beyond that, it would be credit with more liberal interest rates and to a limited extent a longer repayment period. It is conceivable that such a program could offer some potential for expanding foreign markets for U.S. agricultural commodities.

TRADE RESTRICTIONS

Question: What specific steps have been taken to mitigate the competitive problems we have seen lately with respect to the European Community and to Japan?

Answer: The U.S. Government has undertaken a comprehensive strategy for combating barriers on access to the EC market for U.S. agricultural commodities, and preventing any possible erosion of our competitive position on foreign markets. The U.S. has dropped its long-standing policy of dealing with EC trade issues on an ad hoc basis as they occur. The Cabinet recognized that a coordinated and bold approach was needed to successfully come to grips with the increasing integrated nature of the EC's policy on agriculture and international trade. In response to our new policy directive, we are constantly alert to EC trade developments and quick to react to those which could impinge on U.S. trade interests. We are also persistently seizing every opportunity to maintain pressure on the EC to revamp its policies which unjustifiably interfere with the movement of U.S. farm exports.

In recent months during Ministerial-Level meetings with EC officials in Washington and in Brussels, Secretary Block, U.S. Trade Representative Brock, and other Cabinet officials emphasized the U.S. Government's concerns regarding the EC policies. They criticized the EC's use of export subsidies, warned the EC not to threaten our market access to the Community for agricultural products, and admonished the EC to carry the financial burden of its costly farm policy internally rather than shifting it to its trading partners.

The U.S. Government is also actively engaged in dispute settlement proceedings in the GATT against EC export subsidization of wheat flour, sugar, pasta, and poultry. Complaints are also being examined on EC preferential tariffs on citrus and processing subsidies on canned fruit and raisins.

Japan recently agreed to two actions with respect to its agricultural import quotas: the formation of the working group to examine the GATT consistency of the quotas, which will meet April 12 and 13, and initiation of negotiations on trade liberalization of beef, oranges and orange and grapefruit juice during the month of October. Energetic and persistent negotiations will be required to make substantial progress on liberalizing trade in these items.

Question: What, if any, other countries or trading blocs might we find ourselves contending with in the near future with respect to trade restrictions or unfair competitive trade practices?

Answer: Brazil could be a problem in the subsidies area, although we do maintain a dialogue with Brazil regarding trade policy in an effort to avert such problems. Any country may raise import restrictions, of course. Canada and Mexico always have the potential for trade restriction given the extensive border trade that we have, and trade access problems are particularly difficult to resolve with Mexico since it is not a GATT member.

AGRICULTURAL TRADE OFFICES

Question: The Agricultural Trade Act of 1978 authorized up to 25 Trade Offices. You currently have ten in operation. Reports I get indicate these offices are helpful in promoting United States agricultural trade. In your Explanatory Notes accompanying your budget request, you indicate you are evaluating these offices to determine if others should be opened.

When will that evaluation be completed?

Answer: Six of the ten Agricultural Trade Offices--ATO's--have been evaluated.

Question: Will you please provide your findings to the Subcommittee?

Answer: The findings for the six offices is provided.

(The information follows:)

Evaluation of the
United States Agricultural Trade Offices
in Bahrain, Singapore and Seoul
As Established Under the Authority of
Public Law 95-501, the Agricultural Trade Act of 1978
As Signed into Law on October 21, 1978

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Washington, D.C.

FOREWORD

This report was prepared as part of an evaluation process of the 11 Agricultural Trade Offices that have been established since the Agricultural Trade Act was passed in 1978. It is the outgrowth of a decision made within the Foreign Agricultural Service, U.S. Department of Agriculture, to conduct an objective evaluation of these offices by sending three-man teams to the trade offices for onsite inspection during August and September 1978.

The teams sent consisted of one individual from the Foreign Agricultural Service, one individual from private industry and one individual from the Economic Research Service of the Department of Agriculture. The objective was to provide a balanced government/industry viewpoint of the effectiveness and value of the Agricultural Trade Offices. The Government representatives were chosen by the Administrator of the Foreign Agricultural Service and the Administrator of the Economic Research Service, while the industry representatives were chosen by cooperators through their council. The specific instructions given the team were to conduct an overall evaluation of the ATO's and determine whether or not the offices are carrying out the functions mandated by the Agricultural Trade Act of 1978. A list of 10 specific functions designed to expand the market for U.S. agricultural products was considered in the process of this evaluation. These 10 functions are given in the Agricultural Trade Act of 1978.

SUMMARY

The team which visited the three trade offices,in Bahrain, Singapore and Seoul interpreted its mission in four different parts. First, the team attempted to determine the perception of the trade officers as to the original purpose for which the trade offices were established. The responses ranged from setting up an office in order to "show the flag," to establishing an office for the purpose of giving the cooperator groups a more effective place in which to work. The second question posed by the team was, have the trade offices been effective? In terms of almost every aspect explored by the team the conclusion was that the trade offices had been effective in making the American presence more visible and in making agricultural exports a higher priority in the overall set of activities of the Foreign Agricultural Service in the American embassies around the world. The third aspect considered by the team was what determines the effectiveness of a trade office. The highest ranking factor in a considerable list of factors was the personnel which were placed in the trade office. The team reached the conclusion by the time it was finished with the third trade office evaluation that the one most important factor was personnel in the trade office. The fourth issue which the team attempted to focus on was can the trade offices be made more effective? This issue took up considerable time in the private discussions of the team. There was lengthy analysis and assessment of the role of the cooperators, how they interact with the trade officer, and how they interact with the private traders in the country. These four components underlay the efforts of this assessment team.

There was an almost unanimous agreement in terms of the team's views on these issues. The team members may have spelled it out with some differences in emphasis but the conclusion on personnel, for example, ranged from "this is the most important component" to "the ATO depends on the personable ability of the officer to work with people."

There were many detailed conclusions reached by the team. One, for example, had to do with the title given to the agricultural trade officer. While seemingly not of great importance, it came across at at least one trade office that the agricultural trade officer would have greater effectiveness if in fact he had the title of director. It was interesting because at another trade office the trade officer had simply taken liberty of having his calling cards printed up with the title of director on them. It is probable that FAS/Washington should establish a ruling on what exactly the title will be for the agricultural trade officer.

On another issue there was general agreement among the team that the trade office personnel should remain few in number and be required to utilize the cooperators as operatives in the country. This led to the implication, however, that if there is to be a shift towards more finished product exports, the cooperator representation will have to be broadened accordingly. This led to the further consideration of what the product mix should be for the agricultural trade office focus. There was considerable agreement among the team members that a shift toward finished products would be both useful and justified within the trade offices.

Another detailed matter considered by the team was the question of having nationals head up the cooperator groups versus having Americans at the head. There were arguments on both sides of this issue. The cooperator groups who were headed by nationals thought American representatives would be useful in dealing with the host governments. However, the evaluation team members reached the conclusion that nationals were extremely effective in these roles. The end result was that there was no clear-cut conclusion that any recommendation should be made with regard to who the cooperator groups hire for their directors.

One conclusion the team reached was that focusing FAS attention on trade offices is inadequate in terms of conducting the most effective promotion of processed and value-added agricultural products overseas. There was considerable team discussion of how to raise the awareness of American agribusiness about the new opportunities that exist overseas, and that these opportunities will require considerable organization and redirection of resources if sales are to expand. It was suggested that the organizations like the State Departments of Agriculture and other cooperator groups must reach out more to American agri-industry and work with them and get them more interested in selling overseas if we are to increase sales, particularly of processed and finished food products. In all three countries visited by this team there was a sense that considerable opportunity exists for selling finished food products. To do so, however, will require more personnel, either within the trade office or by the private companies that produce and market these products.

The issue of personnel was also raised in a number of instances. There was general agreement that simply taking the same number of personnel and locating them in more separate offices was not an effective way to go. In instance after instance the view came through that there has been enough separate offices established without any increase in personnel. The Korean situation was especially illustrative of this. There, personnel had been taken out of the agricultural sector of the embassy and placed in the agricultral trade office. While some improvement in effectiveness may have been gained there were also some considerable costs.

Finally, the team was left with several specific questions for consideration by FAS/Washington.

1. What is the ideal background training and makeup of the personnel who will become agricultural trade officers? Are the characteristics the same for the agricultural attache, counselor, and trade officer, or do they differ?

2. What is the appropriate job description for each particular officer in each particular region? What balance should there be between emphasis on exports of raw products versus processed products?

3. What is the ideal relationship between the agricultural trade officer and the attache/counselor? Are both needed in a country or should there be only one or the other?

4. Should FAS consider titling the agricultural trade officer by region in order to make him most effective?

5. How can FAS insure that the finished products which we sell are given the same followup emphasis in terms of trade servicing and problem solution that is given to problems with the sale of bulk commodities?

6. How can FAS provide the appropriate guidance in terms of trade patterns, trade policies, credit support, and other factors which actually determine the effectiveness of the trade offices?

INTRODUCTION

On October 21, 1978, President Jimmy Carter signed into law Public Law 95-501, the Agricultural Trade Act of 1978. It had earlier been passed by the Senate on September 8, 1978 and by the House on October 15, 1978. The law instructed the Secretary of Agriculture to establish not less than six and no more than twenty-five United States Agricultural Trade Offices. By August of 1981, eleven ATO's had been established by the Foreign Agricultural Service (FAS) of the United States Department of Agriculture.

The three offices evaluated in this report included Manama, Bahrain, where the trade office was opened on November 13, 1979; Singapore where the trade office was opened on January 12, 1980; and Seoul, Korea, where the trade office was opened on January 21, 1980. By the time of this report each of these offices had been opened approximately 18 months. In those 18 months, these three offices, as well as the other eight which were also established, have established operations designed to lead toward expansion of agricultural exports. Before adding any additional offices, FAS felt there should be an evaluation made to determine their "effectiveness and contribution to the overall market development mission to expand agricultural exports."

Each of the three trade offices reviewed in this report had some common facets as well as some unique characteristics. The Bahrain office, opened in November 1979, had as its purpose "to serve as a focal point for export sales promotion and as a home base for U.S. exporters and representatives of states wishing to develop or expand their export efforts in the area." The geographical area included under the Bahrain trade office were the countries of Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, the United Arab Emirates, Syria, Jordan and Iraq. At the time the office opened, the United States was exporting approximately $600 million worth of U.S. agricultural products annually to these countries.

The Singapore office opened on January 12, 1980 had as its purpose "to serve as a focal point for export trade promotion in Singapore, Indonesia, Malaysia, and Thailand." At that time these combined countries also imported approximately $600 million of U.S. agricultural products annually. The press release announcing this office noted that it was designed to "help non-profit trade associations currently working in Southeast Asia under continuing agreements with the U.S. Department of Agriculture's Foreign Agricultural Service as Market Development Cooperators." It listed as Cooperators in the new Singapore trade office the American Soybean Association, the Poultry and Egg Institute of America, U.S. Wheat Associates, Inc., and the U.S. Feed Grains Council. The initial and present Director of the Singapore trade office is James Y. Iso.

The Korea office opened in Seoul, Korea on January 21, 1980 also had as its focal point export sales promotion. In announcing the office, FAS noted that U.S. farm exports to Korea totaled nearly $1.4 billion of agricultural products in Fiscal Year 1979. In establishing the office, FAS appointed Evans Browne III as Agricultural Trade Officer.

By the time the evaluation of these three offices was made in August 1981 total export sales in Fiscal Year 1981 had increased to 2.1 billion dollars, up from 2.6 billion dollars exported to these countries in FY 1979. During the course of the visit, these trade figures were reviewed closely along with several other aspects and characteristics of each of the individual trade offices.

The following report is divided into three country reports. The first section is on Bahrain, the second section is on Singapore, and the third section is on Seoul.

Bahrain Agricultural Trade Office

Establishment of the ATO in Bahrain occurred in January 1980. It represented a change from occasional swings through this area by a representative of the United States Department of Agriculture to a permanent presence in the area. The overall objective of establishing the ATO in the words of trade officer Joe Butler was "to show the flag" of the United States. He noted in early discussions that American products are preferred in the Middle East but too expensive for the general public.

In extensive opening discussions, the trade officer made several points. As he views it, his job is to "bring the buyers and sellers together and then get out of the way." He noted that most of his time was spent in dealing with the private trade, with an estimate that 40% of his time went to the sellers and 60% was spent with buyers. Followup comments later suggested that about half of his time was spent traveling to countries in the region and about half was spent in the office which is located in the United States Embassy in Manama, Bahrain.

Of some interest to the team was a further comment that he did not believe that having the office in the embassy was a disadvantage since security is not as tight in this particular embassy as in many others. This was confirmed in other ways. The hotel in which the team stayed did not have security guards surrounding it as was true of the hotel in Cairo at which the team had stayed on its way to Bahrain.

Other points made by the agricultural trade officer were also interesting. He suggested that a trade office was preferable to the placement of an agricultural attache in this area because an attache "would have had reporting responsibilities which would have taken up his time." This led to some extensive discussions within the team which for this visit was made up of Mayer of FAS, Nohre of ERS, and Dr. Terry Vorachek, Regional Director of the Mid-East/Africa Office of the U.S. Feed Grains Council, who was located in Rome.

Dr. Vorachek, in later comments, suggested that as a Cooperator he believed that it would be more acceptable to cooperators to utilize a trade officer for solving trade-related problems as opposed to utilizing an agricultural attache. He supported this view by arguing that cooperators had the perception that agricultural attaches had many duties in addition to specific trade responsibility. He suggested that because of this perception most cooperators would be reluctant to draw heavily on an attache for their particular trade problems but that drawing on the agricultural trade officer would be far easier since his duties were very specifically identified with exports of agricultural commodities. Dr. Vorachek also supported another aspect of Mr. Butler's comments which was that he felt an expanded American presence in the Middle East in the area of agricultural trade was very useful. He argued this case in a number of ways, that it was very important to have Americans on the scene if the United States is to expand agricultural trade in a steady and reliable manner. Dr. Vorachek supported this assertion with his six years of experience in the Middle East for three different companies prior to his work with the U.S. Feed Grains Council.

There was one unique aspect to the Bahrain trade office. It covers six other countries and none of these countries have an agricultural attache or counselor. In each instance, therefore, the agricultural trade officer is dealing with commercial officers in the American Embassy. This has necessitated a fairly time consuming process of building agricultural contacts in each of these countries. Not all countries are equal, of course. A point which ATO Butler repeated a number of times and in which he noted the overriding importance of Saudi Arabia as a market for U.S. agricultural products.

In this respect there was considerable discussion of the characteristics of the market in the Middle East, including the extremely high level of per capita gross national product and whether that represented a particular opportunity for sales of more processed products, including meat and poultry items in particular. This line of discussion led to at least two points. One was that the Chamber of Commerce in Bahrain represents an important contact for the agricultural trade officer and the second was that companies belonging to the Chamber of Commerce often complain because American companies do not have telexes which is the major means of communication in this area of the world.

In the initial discussions, the agricultural trade officer made one other major point: He noted that he felt no loss of contact with host government personnel because he is in an agricultural trade office. Butler suggested that there might be such a loss of government contact in cases where there is also an attache at the post. Dr. Vorachek who joined the Feed Grains Council only several months earlier said he found it difficult to see the difference in purposes between an attache and an ATO. After several more hours of discussion, however, Dr. Vorachek later amended his comment and noted that perhaps he saw the trade officer as having more limited duties and perhaps more directly related to the purpose of expanding agricultural exports.

The process of expanding exports is facilitated in several ways in this trade office. Cooperators come through, according to the trade officer, and want the support of the ATO, including meeting them at the airport, getting them hotels, and taking them around to meet the private trade people. If they are old hands they may operate on their own. Otherwise one of the services provided is identifying potential buyers for cooperator groups. In this respect the trade officer was asked whether the absence of cooperator groups in the trade office and in this particular country was a hindrance but he did not believe it to be so.

Tools of the trade here, according to the trade officer, are the TORS, the filing of tenders which he passes along to Washington, holding food shows, having food sales teams come through, including a livestock survey team, menu promotions, receptions, as well as solution of particular trade problems. He mentioned two particular trade problems as did the Ambassador in the team's visit with him. One was a problem of wheat which the Saudis did not believe to be of proper quality and which entailed bringing a USDA grain inspector to Riyadh for a special project of teaching Saudi inspectors proper grain grading methods. The second was apples, again going into Saudi Arabia, which were being rejected because of a perservative sprayed on the apples which the International Herald Tribune claims was a possible carcinogen. Both problems drew the agricultural trade officer into a solution.

The uniqueness of this particular trade office came through time after time. It is an office that services a cash market with no PL 480 or CCC credit. It thus is without two of the major tools used in agricultural export promotion. Instead the modus operandi appears to focus primarily on contacting commercial attaches in the served countries, establishing personal contact with the buyers for those particular countries, and assisting U.S. sales representatives. It is mainly a respondent role -- responding to private buyers or private sellers. When asked about whether getting beef into hotels could be accomplished, the trade officer agreed that it might be possible but it would require further effort on his part. He listed that as one of the things which could be accomplished in the future.

Like an attache office, the trade office must have adequate information if it is to operate with efficiency. In this instance information is not readily available from Government sources. The trade officer noted that he gets most of his information from the trade. It is also true that other embassy officers get information from the trade office. On the morning of the team's visit the Australian Embassy in Kuwait called and discussed the matter of wheat shipments into Kuwait at some length with the American trade officer. It was an interesting phone call since it was Australian wheat going into Kuwait it would seem that they should have known the total quantities being imported by that country.

What came across in visiting this ATO is that it is different in several ways from other embassies or trade offices that the team visited. It is primarily a market for finished food products. There is a market for the basic commodities but it is relatively small. Included in all the countries covered are only about 10 million people. Quantities purchased by any one country are small. For example, the trade officer noted that one shipload of wheat from Australia would be unloaded at three different countries and satisfies the needs of each of the countries for at least six months. Thus, the area does not attract the interests of major grain companies. On the other hand, small grain companies would appear to find difficult problems of selling in this area of the world which reduces their interests in participating in this market.

The visit to the office did raise questions about how to locate an ATO office. Presently, the office is located on the second floor of the embassy compound and is reasonably difficult to ,enter and to leave. The Ambassador in our discussions with him noted that he had expected it to be located in the business district more acceptable to the buyers. We discussed at some length with the Ambassador why it was located where it is. He noted the security problems in this region and raised them as the major reason it is located in the embassy compound. 1/ It would be true, however, that if one aspect of an ATO is to have a major flow of local buyers coming through, this office is not serving that aspect very well.

If, on the other hand, the office is judged not on local buyer traffic but rather in terms of the agricultural trade officer's contacts with

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1/ When the ATO was established it was the consensus that it should be located within the embassy complex.

local businesses, associations, and private buyers, then the office is suitable. On several occasions the point was made by embassy personnel that the agricultural trade officer has made extensive contacts within the community of Bahrain and has a wide range of acquaintences on whom he calls. The commercial officer made this point by noting that Joe Butler seems to know everyone. The Ambassador also inferred as much in his discussions with the team. Undoubtedly, these contacts have been made during visits of trade teams or other promotional events.

One affect of the contacts, as well as the promotional teams, was illustrated on the final day of the team's visit during which the trade officer took the team to local supermarkets. In the supermarkets was a wide range of American products, some with labels unchanged from the U.S. grocery shelf and others in which the name of the product had also been applied in Arabic. The team made several estimates of what proportion of goods had some tie to American firms and the estimates ranged from 20 to 40 percent. In other discussions we were told that before the trade officer arrived there were almost no American products in these stores.

In concluding its assessment of the Bahrain agricultural trade office, the team reached certain general conclusions:

1. This agricultural trade office deals more in finished food products than would the average agricultural attache or agricultural trade office.

2. The trade officer has established a wide range of contacts along this line of sales with hotels and supermarket chains which he maintains through various devices.

3. The team was unable to determine, because it did not travel to the other countries covered by the trade office, whether the degree of contact in Oman, Saudi Arabia, and the other countries, approached that which he had achieved in Bahrain. Overall the level of contact established in Bahrain was impressive in the short two years in which the trade office and the trade officer had been located here.

In the final analysis, of course, as the Ambassador pointed out, the results will show up in one of three places. First, it may show up in the trade figures on export shipments to this area. In this respect it may show up as much in the processed foods trade figures as in the raw farm commodities. Two, its effect will show up in the responses, through inquiries and reactions of American commodity groups. In this respect, the comments of Feed Grains Council personnel, Wheat Associates, and similar groups will be important evaluators of how the trade office is operating. Three, it will show up in the reactions and responses of the local buyers in the countries covered by the trade office. This was the weak part of this team's evaluation approach. Had there been time to have accompanied the trade officer to other countries and to determine his degree of involvement there, it would have been a more complete assessment of the Bahrain agricultural trade office.

Singapore Agricultural Trade Office

The fourth U.S. Agricultural Trade Office, opened in Singapore on January 12, 1980, faced a very different environment than the agricultural trade office in Bahrain. Located deep in the Far East, the area covered -- Singapore, Malaysia, Indonesia and Thailand -- was already a thriving center of trade and business. Agricultural exports from the United States to the region were estimated at approximately $600 million in the year prior to the opening of the trade office. A little over a year later when this review was made, agricultural exports had already grown to $765 million despite a fairly significant reduction in the level of exports to Thailand in the ensuing year.

The four countries covered by the trade office differ in one respect from the area covered by the Bahrain trade office. Each of the other three countries -- Malaysia, Indonesia and Thailand -- have an agricultural counselor or attache which represents U.S. agricultural interests. The agricultural trade officer in Singapore made clear that his approach to these countries was to allow the agricultural attaches to request his assistance if it proved necessary.

In other respects, however, there were similarities between the two trade offices. One was that one major country comprises a large portion of the overall trade possibility in each region. In Bahrain, it was Saudi Arabia. For the Singapore ATO, the country with greatest potential is Indonesia. Of the roughly 220 million people in the four countries covered by this trade office, about three-fourths are located in Indonesia. These millions, however, have the lowest per capita income on average, roughly $350 each compared to the far higher levels in Thailand, $590 per capita income is estimated at $3,810 each. Singapore is the major transshipment point for the trade area.

A review of commodities shipped to this area indicated that there is wide dispersion. For Singapore itself, poultry was the major commodity shipped into the region adding up to about $20 million per year. For Indonesia, however, with its lower per capita income, wheat was the major commodity imported. In Malaysia, tobacco ranked first and for Thailand, cotton was the most significant. The number one position held by poultry going into Singapore was indicative of the type of commodities that the agricultural trade officer stressed during the visit of the team. With only 2.4 million people, with very high per capita income, and a metropolitan environment, the market for agricultural products in Singapore is one of a highly urban society. It was clear from the opening discussions with agricultural trade officer Iso that his major work focused on retail-type food exports. He stressed the importance of items like high quality beef to meet the rapidly expanding hotel trade in the Singapore area. He noted that the biggest restraint to the U.S. being competitive in this area is the high cost of freight rates. He explained that one of his major efforts was in trying to determine ways to reduce shipping costs.

Mr. Iso who had spent 11 years with the Renderers Association based in Tokyo prior to joining FAS in 1975, stressed that his major goal when he came to Singapore was to get "the U.S. foot in the door." He noted that the British and the Australians had the market tied up prior to entry by the United States with its agricultural trade office. The number one goal, therefore, was to begin a process of education and increased awareness of American products. His first steps, he explained, were to identify those commodities of interest to this market. The next step was to carry out the whole process of market development which he explained as the "nitty gritty" of commercial trade: Bringing buyers and sellers together; taking the exporter by the hand and leading him through the sale; providing him with all the services necessary for the sale even to and including a desk, a phone, a telex, and a conference room. He explained in some detail that whereas an attache may spend the majority of his time in information reporting, the agricultural trade officer as he envisioned it spends at least 85 to 90 percent of his time in the development of trade. He went on to note that his reporting responsibilities are substantially less than for an attache, with only three required reports each year on substantive issues and one monthly trade contact and activity report.

When the trade officer was pressed on why he thought the ATO was a more effective method of assisting agricultural exports, his number one explanation was accessibility for the local traders which was in his mind, far better because the office is located outside the embassy where the security factor always makes it difficult for the local traders to gain access to the agricultural attache.

The issue of collocation of cooperators was seen as both a benefit and a heavy burden from the standpoint of this agricultural trade officer. He noted the benefits of having all the different cooperators located in one building which meant that visiting one of them gave awareness of the others. But he also pointed out that having them all there with himself as the overall coordinator created a heavy administrative burden. The practical problem of fixing the xerox machine, maintaining office supplies, and keeping all other details under control, was a heavy time requirement. But he stressed that visibility of cooperators is probably greater because of collocation.

When quizzed on whether the perception of local government officials would differ because he was an agricultural trade officer as opposed to an agricultural counselor, he suggested that there was not much difference. He noted that if there were policy issues which arose with local government officials, he followed the practice of taking the economic/political officer from the embassy with him to any meetings on particular trade policy issues.

The evaluation team in trying to gain a better understanding of how a trade office differs from the traditional agricultural attache/counselor setup, pressed the agricultural trade officer for his own perceptions of these differences. The responses indicated that this ATO was reluctant to compare himself or the structure of the trade office with the traditional attache structure. He noted at some length that each has its own strong points and that he did not believe they were necessarily competitive with each other. He suggested that a trade officer, because he handles the "nitty gritty" trade issues daily, could have a more intimate and detailed knowledge on particular trade practices and trade problems. He suggested that this more intensive knowledge could be more effective in solving particular trade problems when they arose in the local area.

He used as the example the import of poultry into Singapore where local officials are extremely demanding on having every "i" dotted and every "t" crossed in exactly the same way on all papers accompanying a particular shipment.

In further discussions with the agricultural trade officer, he pointed out that there are other reasons why the ATO concept may be more useful in Asia. He noted that in this area of the world a Government official is looked upon as having very high status. He suggested that as a result the typical response of the trade public might be to see the ATO officer as "more accessible." This was a point made as well in Bahrain by the cooperator representative on the team. He had suggested that he would utilize the trade officer more readily because his perception was that trade servicing was his major function and that he would, therefore, be more responsive to requests for assistance. A similar response was implied by the industry representative on the team in Singapore with a discussion he led about problems of getting corn into Taiwan when a grading problem had occurred. The industry representative in Singapore was Bill Kerkvliet with Land O'Lakes Company, a past chairman of the U.S. Feed Grains Council.

In further elaborating on the benefits of an agricultural trade office, Mr. Iso pointed out that an agricultural trade officer was likely to have a better working relationship with the commercial trade simply because he can spend more time developing that relationship. He went into some detail in explaining the types of particular trade problems that he had run into in Singapore and the ways he had gone about solving them. He was careful, however, to point out that agricultural attaches also carry out this type of problem solving function and only suggested that his effectiveness might be greater because he had far less reporting duties and thus he could spend the larger share of his time on this type of problem.

The final point made in the opening discussions was that developing these types of working relationships in the Asian setting took a significant number of years. He noted his own 11 years in the area with the Renderers Association and suggested that as a result of that he had been able to more quickly establish working relationships when he arrived in Singapore. He observed that others who would follow him would perhaps not be so fortunate and that it would take at least a minimum of two years to develop the effective relationships with local trade representatives. He also noted the importance of understanding, the cultural aspects of conducting business in the area, and observed that much of the business carried on in this part of the world and the business deals made were made not "across the desk" but rather in a more social environment on the golf course or in other social settings. He stressed that it was extremely important to develop a good rapport with the trade and to be able to provide those little moments of assistance, such as getting a visa for someone on short notice, or in some other way assisting him. This type of assistance, he suggested, would be invaluable when the trade officer wanted a favor of some type.

The complexity of the trade situation in Singapore led to followup discussions that covered a very wide range of topics. In early morning discussions with the trade officer, the discussions centered on trade opportunities that abound in Singapore. Several unique opportunities were outlined. One had to do with the food needs of Singapore, shipping traffic where some 300 ships await unloading in the harbor each day and then reload, restop, and go on to other destinations. This alone provides the opportunity for a significant sale of food products.

A second specialized and unique opportunity was the oil-rig personnel who also number some 10,000 in the area. The food stocks required for the oil-rigs are highly specialized, high quality, and of an expensive variety. Providing these stocks, along with feeding the families of the oil workers who remain behind in Singapore also provides an opportunity for significant sale of retail food products in this market. Finally, a third opportunity was the wide range of airlines that fly in and through Singapore. It was estimated that up to 60,000 meals are prepared each day just to satisfy the air traffic. This was expected to rise by one estimate to 80,000 within a year. It would appear that these three major segments of the market would provide an opportunity for a significant importation of retail food products from the United States.

Following the discussions on trade opportunities, the talks turned to the question of market development and the appropriate means to carry out this activity.

Earlier in the morning, we met with the veterinarian who heads up the meat import inspection service for the Singapore Government. This young man had been trained as a veterinarian in England but was obviously interested in coming to the United States to improve his understanding of how our U.S. meat inspection service worked. There were discussions between the trade officer, the meat inspection supervisor and the evaluation team on how such a trip to the U.S. might be arranged. No conclusions were reached but the trade officer agreed to continue discussions at a later date.

In the meeting with the Ambassador and the DCM later in the morning there was a lengthy discussion of the merits of having an agricultural trade office in Singapore. The DCM made the point that there was a very close working relationship between the agricultural trade officer and the embassy. The Ambassador made the point that the only justification for the agricultural trade office being outside the embassy was a lack of space in the embassy. 2/ Both agreed that regardless of what the trade officer was called, whether it be an agricultural attache of a traditional nature or the agricultural trade officer as presently structured, any agricultural office in Singapore would be a trade office.

The embassy personnel went to some length to note that the agricultural trade office was an integrated "operation" with the embassy. It was obvious from the discussions with the Ambassador and the DCM that they look upon the agricultural trade office as a very successful operation and had high respect for the trade officer.

In the afternoon the team held meetings with the hotel trade and received an explanation of activities under way to increase the amount of beef imported from the United States.

Later, discussions returned to the activities carried on within the trade office and the associated cooperator groups. There was a lengthy discussion of the problems of personnel salaries among the cooperator groups, especially vis-a-vis embassy personnel salaries. The trade officer made the point that keeping the cooperator family happy is a very important goal within the trade office.

In lengthy discussions aimed at ferreting out the costs and benefits of a trade office, there was substantial discussion on the issue of trade expansion and how it is achieved. The trade officer went to some length

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2/ The Ambassador to Singapore at the time of the establishment of the ATO emphasized the advantages of having it located in a commercial area outside the embassy.

to point out that trade expansion is not an overnight effort. It is a methodological process, he suggested, in which planning is essential and evaluation of markets is an integral part. The point was made repeatedly that one cannot begin such a process without the expectations that it will continue for a significant period of time, otherwise the investment in manpower and other resources will wither away without achieving the desired goal of expanded trade.

A major difference between the ATO in Singapore and in Bahrain was the existence of four cooperator groups collocated to the Singapore office. The team reviewed operations of each of the five cooperator groups in Singapore beginning with wheat, moving to soybeans and followed by feed grains, poultry and eggs, and meat.

One point that was made repeatedly by the cooperators was their satisfaction of being located within the trade office. One of the cooperators noted that before collocation took place there had been an expression of concern that moving into the suite of offices with the ATO would be seen by the trade as becoming a part of the U.S. Government. He went on to note, however, that it has not worked out that way and the benefits of increased communication and easy access to the trade officer has been substantial. This was a point which was confirmed in discussions with the other three cooperator groups. One noted that the increased communication was especially helpful between cooperators. In practice the team was somewhat surprised to find that the Feed Grains Council and the Soybean Association had 10 out of 11 projects which were being conducted jointly. It illustrated the kind of close working relationship which has developed because of collocation.

There were other benefits that were noted by other cooperators from collocation. One spelled out the efficiencies to be gained from having a common telex, xerox, and other matters having to do with supplies. He went on to note that the trade office provides ease of access for outside groups, lacked security apparatus as an impediment to access, and stressed that the interest of the trade officer was very important in his effective operation.

Interestingly though, there was a view repeated throughout the discussions with the team which indicated that the perception from almost everyone, ranging from the Ambassador through the cooperator groups, and on into the private trade, that there is almost no difference between a trade officer and an agricultural attache. They are perceived as being the same in almost all respects. The team pressed repeatedly in discussions to determine if there were any significant differences perceived by persons having close working relationships with the ATO. In instance after instance, after a thoughtful pause, a respondent would suggest that "he say no real difference between an ATO and an agricultural attache.

When pressed on the issue of whether the trade officer was too closely associated with the embassy, there was really no clear-cut opinion given. One cooperator did note that there was certain benefits to be gained from an association with the embassy and that since the cooperators were not allowed access to the embassy in Singapore and its perquisites, it was helpful for the agricultural trade officer to have that close relationship. He seemed to support rather strongly the idea of having the trade officer be part of the embassy as well as primarily a commercial trade representative.

Two unusual cooperators located in Singapore were the Poultry and Egg Institute of America and the Meat Export Federation. The representative of PEIA had been with the organization for six years, a woman without a college education but with impressive credentials and even more impressive operational qualifications. The team clearly was taken in with this young lady, married and the mother of two children, who explained "her job was to be a bridge between exporter and importer, to talk to importers as well as consumers, and also to have contact with the Singapore Government." It was as succinct an explanation of the role of cooperators as the team had heard.

She went on to explain in some detail the importance of a good rapport with the Singapore Government because, as she put it, "the rules and the regs change constantly and it is important that we collect that information and pass it along to the exporters." She noted that U.S. poultry has 80 percent of the Singapore market and that quality and reliability are key factors in that trade relationship. A point the team had heard before was also made: The telex in this part of the world is an important instrument in facilitating trade. Local traders consider it to be a binding contract once communication has been established between seller and buyer. This pointed up again the problems that arise because many American companies do not have telexes and do not depend on it like companies do in this part of the world.

The Meat Export Federation was also represented by a Singapore national. She had worked with MEF only some six months and was working only one day per week. In discussions with her, however, it became clear that she had excellent working relationships with the Singapore beef trade. She noted that Singapore is trying to be self-sufficient in pork and that New Zealand has the lamb market tied up so that only beef represented a real opportunity in Singapore. Like PEIA, MEF is represented only in Singapore and does not have regional responsibilities in this trade office. She discussed the competition from Australian beef at some length, outlined the problems they were having with their advertising program, and went on to outline in some detail a wide range of activities which she thought could be undertaken to promote beef more effectively in Singapore.

However, she noted that with only one day per week she was really not able to get a major promotional program going forward, especially without any promotional funds. The traditional commodity groups were well represented in this particular trade office. ASA is about to undertake a major expansion in personnel. Wheat Associates has two Americans -- Director and Assistant Director -- who represent its interest in this area. Feed Grains has a staff of people who are working and promoting exports of feed grains. It was clear also that poultry and eggs are receiving effective representation in this market.

The promotion of beef, however, was much weaker: one person one day per week. As a result, a major portion of responsibility for beef promotion falls on the agricultural trade officer. The image that came across was that beef was receiving far less attention than the burgeoning high income market would suggest would be appropriate. A cursory assessment would suggest that the marginal benefits of investing funds in promotion of beef would be rather high.

This view was reinforced with later meetings held with the private trade in Singapore. Retailers of food noted that promotions are essential to introduce consumers to new products. For many consumers beef would be a new product in this area. At the present time it would appear that much of the beef coming into this area is being sold to either the tourist trade or to Americans and Europeans who belong to and participate in the private clubs in Singapore. If this market is to move beyond this level of sale it will require broader promotion by the beef industry.

The meetings with private trade also gave the team an opportunity to listen to other views of the agricultural trade office. Based on the meetings with a relatively small number of traders it was apparent that the agricultural trade officer had built some rather deep and strong ties with the private trade. When asked whether the trade office was an improvement as a source of information on trade with the United States over the embassy, one private trader asked parenthetically -- "Why should I go to the embassy, there is always somebody with a gun over there."

This made the point that the private trade does view the embassy security system with some disdain. He followed up this comment with tho further view that I "come to the trade office because my friends are here." He also noted that the trade office was in his view very handy. Another trader who was also present at this point noted that his relationships were so friendly with the trade office that "many problems I can discuss and solve over the phone."

Both traders had previously noted, however, that reliability as a supplier is important and that timeliness of shipments is equally important for buyers in Singapore. Both had discussed at length the sensitive nature of the market in Singapore for U.S. agricultural products and the important role that re-exports play. They noted that much of this re-export market is extremely time controlled and that if they were to build that market it would require that deliveries from the United States be guaranteed to be on time. They also noted difficulties they had previously had with asking American exporters to satisfy a need only to waste considerable time with no reply from the U.S. supplier. These were the kinds of problems in which they noted the usefulness of the agricultural trade office for funding a solution.

It was obvious from discussions with a wide range of people in Singapore that the agricultural trade office is filling an important role. Part of this importance grows out of the fact that there was no agricultural representative posted in Singapore prior to the beginning of 1980. Undoubtedly had USDA decided to place an agricultural attache at this post instead of an ATO, he probably would have been looked upon very positively by the trade and by the embassy by this point in time. It was clear though that in terms of the relationships with the private trade, with the embassy, and with the cooperators, the agricultural trade officer has succeeded in building an excellent rapport. The meetings with private retail food traders, with the wholesalers, and with the grain traders led to a reinforcement of the view that the agricultural trade officer is held with a great deal of respect by all of these members of the agricultural and food systems in Singapore.

Korean Agricultural Trade Office

The agricultural trade office in Korea was established on January 21, 1980. It was viewed in the official press release as the first agricultural trade office in the Far East, one of the network of agricultural trade offices authorized by Congress under the Agricultural Trade Act of 1978. The official statement further noted that the United States exported nearly $1.4 billion worth of agricultural products to Korea in Fiscal Year 1979. Three cooperator organizations were provided offices within the Seoul trade office, including the American Soybean Association, the National Renderers Association and U.S. Wheat Associates, Inc. A separate office within a few blocks was already established for the U.S. Feed Grains Council. The director of the new ATO was (and is) Evans Browne III who had been with FAS since 1971, had served as an assistant agricultural attache in Canada and France before becoming the agricultural trade officer in Seoul.

The first step in assessing the trade office in Seoul in September of 1981 was a meeting of the team with the agricultural trade officer. In an opening question and answer period, Browne noted that the general guidelines for the trade office at the time he undertook the position was the legislation passed by Congress. He suggested that it was "pretty much up to the ATO and the agricultural attache how those general guidelines were put into practice." In response to a specific question, he suggested that "the primary goal was to set up a trade office in which cooperators could work effectively."

Left out of the directives in establishing the ATO was the working relationship with the agricultural attache who was located in the American Embassy a few blocks away. The outcome was that the agricultural attache and the ATO had to work out an operational relationship. The major role of the ATO was eventually determined to be marketing work, including such items as the development of cooperator plans and their implementation. There were several advantages to this arrangement. For one thing, the ATO noted that the telex gives a much faster response time to trade inquiries than the traditional cable process employed by the State and Agriculture Departments. He outlined in some detail how the agricultural trade office provides services that sales personnel would previously have had to handle through a hotel or through a relationship with some local company. The trade officer also suggested that his handling of visitors schedules and cooperator programs tended to direct the Koreans toward the agricultural trade office. He did allow, however, that the Spinners and Weavers Association of Korea, when it could not readily understand the relationship of different cotton cooperator groups, went to both the ATO and to the new agricultural counselor for guidance.

When asked to contrast the role of the agricultural trade office and the agricultural counselor, which both were present in this particular setting, the trade officer suggested that he carried out a heavy load of correspondence, administered cooperators, oversaw development of their marketing plans, and implementation of those plans, and he had a major part in the scheduling of visitors having to do with trade.

By contrast, he suggested the agricultural counselor had a heavier set of responsibilities in terms of information reporting, in terms of liaison with the embassy, in terms of trade policy discussions with the Korean Government, and in terms of credit programs carried out by the Foreign Agricultural Service of the United States Department of Agriculture. His succinct summarization of this contrast noted that the counselor interrelates with the Korean Government representatives while the ATO interacts with the private trade, and especially American representatives of that trade.

In discussing the role of the cooperators within the trade office, the trade officer stated that cooperators present in Korea did not require a heavy investment of time. He pointed out that by contrast, one cooperator without an office in Korea, cotton, required a substantial amount of time. Likewise the Holstein-Friesian Association takes up a substantial amount of time of the agricultural trade officer.

One major difference was noted in Korea in the relationship between the U.S. Feed Grain Council and the American Soybean Association. In Singapore some 10 of the 11 programs carried out by these two cooperator groups had been joint projects. In Korea only 1 or 2 of the 20 projects carried out were common to both organizations.

Asked to list the benefits of the agricultural trade office, the trade officer suggested that (a) communications between cooperators and USDA is much better -- particularly helpful are cooperator, counselor and trade officer regular staff meetings -- , (b) that the arrangement saves considerable money because of collocation. He spelled out that the rent cost for all the cooperators, plus the agricultural trade office, amounted to $18,000 a year compared to $22,000 a year for the Feed Grains Council which was located elsewhere. He also suggested that the agricultural trade office is a guiding light of the market promotion activities of the cooperator groups.

The interview with the agricultural counselor was of a somewhat different nature. He suggested that there was considerable overlap in terms of the information that the ATO and counselor have to have in order to operate effectively. When asked whether the priority given market expansion was greater with an agricultural trade office as opposed to an attache structure, the agricultural counselor suggested that this depended on the personality and makeup of the attache. His own background of market development caused him to spend, he said, a substantial amount of time on the area of market development.

In what was a convincing discussion, he noted that an agricultural counselor must work closely with the cooperator groups if he is to be fully informed about what is going on in the agricultural sector. He suggested that cooperator groups look to the counselor because of his title for assistance in working with the Government. In further discussions in which the team asked him to evaluate the impact of establishing the agricultural trade offices, he suggested that their establishment "may have just dispersed the budget funds over more people." He carried this point further by suggesting that the really important point to be made relative to the agricultural trade offices is that additional resources be made available for trade servicing and trade promotion. He suggested further, that giving the agricultural trade officer the title of assistant attache, or even attache in those posts where there is an agricultural counselor, might increase the trade officer status and effectiveness, especially in the Orient.

Intermixed with the team evaluation of the trade office was the importation of a substantial amount of market information provided by the cooperators and staff of the trade office and the agricultural counselor. It was in many ways a demonstration of the amount of information located in the agricultural sector of the Korean-American compound. The discussion ranged from the latest estimate of the Korean rice problem, always of interest to the United States, to the latest estimate of flour milling capacity in the United States.

The evaluation discussions, especially with the cooperator groups, painted a picture of strong support for the agricultural trade office concept and the collocation of cooperator groups. It was pointed out that in Hong Kong where office costs have skyrocketed there is a movement among cooperator groups to collocate even though there is no trade office in that city. The wheat cooperator spelled out in some detail why he preferred the collocation concept, noting that being with the agricultural trade officer removes a whole set of problems of keeping track of rental costs and other bookkeeping needs, plus he suggested that the agricultural trade officer being an American could fill the need that he felt for an American to head a team involving discussions on wheat.

In the case of the cooperators in Seoul, three of the four cooperator groups are headed by Koreans -- the fourth is headed by a Korean who is a naturalized American citizen. When asked how cooperator groups interrelate with the agricultural trade officer, one cooperator noted that he used the agricultural trade officer to "interact with the private trade, help investigate problems and to report to FAS/Washington." It was evident, however, that the individual cooperator groups have different approaches in terms of how they use the agricultural trade officer. One cooperator spelled out that he ran his own program of expanding the market for his products and related his own efforts to encourage the Korean Government to reduce and remove restraints to the import of some of his particular products. But even he went on to note that "without the agricultural trade office, his cooperator group would have had a very difficult time getting started in Seoul."

It was not an unusual comment. Rather it fit the mold of many comments from many different people that the team talked to in their assessment of the trade offices in the three different countries and cities.

The ATO office in Korea followed the mold of other offices in some other respects. One was in the lack of criticism by persons with whom the team visited. The Korean visit was especially diversified in terms of people visited. The team spent a morning visiting persons in the embassy who interact with the ATO in one way or another. Included was the Administrative Counselor within the embassy. Mr. Knight had been with the embassy for approximately one year but had very few views on the operations of the agricultural trade office. He observed that there were few, if any, problems in the way the ATO office operated. This was further confirmed by the team in meetings with the Personnel Officer, Mr. Butler, and later with Mr. Alan Kellog who operated the computer systems within the embassy. Overall it was obvious in visiting with members of the American Embassy, that the trade office had operated effectively and without any notable problems during the 18 months it had been in Seoul.

After visiting with the personnel and administrative people in the embassy, the team then visited with cooperators. Of particular interest was Mr. Park who heads the U.S. Feed Grains Council in Seoul. He has been there for a significant period of time, beginning well before the establishement of the ATO. After briefing us rather thoroughly on the role and outlook of feed grains in the Korean livestock economy, Mr. Park went on to note that the establishment of an ATO was "very timely" for his country. He observed that the attache traditionally had always been very busy and had lots of documents piled on his desk. He felt the ATO lifted off a substantial amount of responsibility for this particular aspect of the counselor's duties. Mr. Park went on to observe that in the past the attache couldn't handle all of the inquiries he was called upon to handle and, thus, he was often calling the Feed Grains Council for information to help out on such inquiries. Now he noted the ATO handles much of this trade servicing activity.

One other aspect of the visit to the Feed Grains Council office was that the director noted that the Feed Grains Council was voluntarily asking for collocation in order to gain access to the services of the trade office. He noted that access to the telex was of particular interest to the Feed Grains Council, spelling out in some detail how office personnel had to make the trip across town to utilize the telex and noting that if there was collocation he would no longer have to make this kind of time-consuming trip.

A point on staffing raised by the Feed Grains Council director was similar to those heard in other posts. Mr. Park suggested that while staffing level at present might be adequate to handle the ATO activities, for the future he was convinced that it would prove to be inadequate. Specifically he noted, even at the present, U.S. visitors are well handled but Korean visitors are given inadequate time and attention in his view. He went on to spell out the need for personnel to handle the Korean National who would come to the office and ask for information or other kinds of assistance. Mr. Park's final point was that even if the ATO concept had been established only for Korea, it would have been justified and extremely useful. In his mind at least, the concept of an agricultural trade office was beyond doubt justified, useful and a step forward in merchandizing U.S. agricultural products overseas.

The visit with the director of the American Soybean Association office was very similar in many respects. He noted that the concept of collocation saves time, costs less in terms of rent, and gives the idea to the Korean public that American agriculture is interested in selling products overseas. As with many other of the people visited, the ASA representative had few, if any, negatives to talk about in terms of the ATO. Even when asked point blank if he had problems, he turned his problems into what were really supporting evidence for the value of an agricultural trade office.

Another group that the team spent considerable time visiting was the private trade. One such visit was with the buyers for the tourist hotel trade. Time after time the view was expressed that "the ATO has been instrumental in giving us the contacts we need." There was little, if any, criticism of the concept despite the repeated efforts of members of the team to ask the specific people visited for any negatives in terms of the operation of the trade office.

There were some other aspects of agricultural trade that did come through in a negative fashion -- one made by the chef of a large hotel in Seoul was that U.S. suppliers are not as responsive to overseas buyers as they would be to U.S. buyers. This particular chef had served in the United States as a chef of a major hotel and he was obviously convinced that he was not getting the kinds of response as a chef in a major hotel in Seoul that he had gotten during his stay in the United States. He went on at some length to spell out the particular problems that he had had with ordering from U.S. buyers. One particular problem he laid out was acted on by both the agricultural trade office and by the team in an attempt to find a solution and to resolve the problem.

Overall the visit to Seoul and the evaluation of the trade office proved to be of a very positive nature in terms of whether the ATO concept was useful, whether it was serving a purpose, and whether it should be continued in its present form. After several days of rather intense discussions with an extremely wide range of people, the team came away with the clear impression that there were very few, if any, problems involved in operating the office. The team also drew the conclusion that the office was serving a very useful purpose, that it was helping in expanding agricultural exports and that it should be continued in its present format with little, if any, change. Undoubtedly more personnel might give it additional thrust in terms of selling agricultural products but until the Korean Government decides to open up the market it was not obvious that further market development efforts might do except to create further pent-up demand for American agricultural products.

Clearly the review of trade prospects by the different cooperator groups, as well as by the private trade, suggested that there is already more demand for American farm products in Korea than the Korean Government is willing to allow to enter the country. This essentially suggested that market development efforts will be somewhat futile unless they are coupled up with efforts to negotiate more open market and greater access to the Korean market. This particular aspect pointed up that a trade office per se in a country like Korea is not a final answer to the market development concept. It must be coupled up with appropriate steps in trade policy, as well as necessary levels of support in agricultural credit. Even additional information was pointed up as a necessary ingredient in the overall thrust of development of a concept of an agricultural trade office.

EVALUATION OF THE UNITED STATES AGRICULTURAL TRADE OFFICES IN LONDON, HAMBURG, AND WARSAW AS ESTABLISHED UNDER THE AUTHORITY OF PUBLIC LAW 95-501, THE AGRICULTURAL TRADE ACT OF 1978 AS SIGNED INTO LAW ON OCTOBER 21, 1978

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SUMMARY

The evaluation team followed a pre-set agenda with discussions and/or meetings with key officials at each post. The agendum were well planned and contained the types of meetings necessary for the team to evaluate each Trade Office given the very short period of time available.

All personnel without exceptions, are working diligently to make the Trade Office an effective tool in market development. The evaluation team was impressed with the dedication of the Officers and the Counselors/Attaches to the Trade Office concept.

Generally, Cooperators embrace the Trade Office concept. Some, however, prefer to remain aloof from the Trade Offices. This mostly reflects a desire not to be identified as part of the Government bureauracy.

It is apparent that the U.S. Trade is using the Trade Offices as a base away from home. This is important and needs to continue to be encouraged by FAS/Washington.

GENERAL RECOMMENDATIONS

1. The care in selecting of outgoing Trade Officers is very important to the success or failure of the Trade Office. FAS/Washington needs to understand that every Trade Office is different, thus different types of personnel are needed in order to make the Trade Offices effective. FAS/Washington needs to prepare each of the selectees with appropriate training, background, and language ability. The employee must have a strong desire to want to work in market development utilizing skills necessary to deal with the local and U.S. trade. It would be helpful if the Trade Officer had some commercial experience. Perhaps an exposure to agricultural industry through a training program might be feasible. Of further possibility is that FAS/Washington should consider developing a cadre of Trade Officers with a career ladder of their own, including incentives (promotions, etc.) to make that career an end in itself.

2. Tours of duty for Trade Officers should be longer than two years. The local trade in the U.K. especially, indicated at least four years and maybe longer. It sometimes takes three or four years to penetrate the local market and make the office effective.

3. The European ATO's should make direct use of the FSIS and ARS offices in Brussels and Rotterdam in the handling of trade complaint problems.

4. FAS/Washington should consider giving ATO's regional responsibilities which to the extent possible coincide with Cooperator responsibilities.

5. ATO's need to be advised again that the Export Promotion Divsion in FAS/Washington is the focal point for all services relating to the operation of their individual offices.

6. The value of ATO's really center on the importance of value added products to the individual markets and the total export picture. Bulk product market development appears to be the responsibility of Cooperators and should continue to be so. Thus, any cost/benefits ratio should mostly relate to further processed items in the market covered.

7. Of considerable importance in the relationship of Cooperators and ATO's in defining supervision responsibilities. The evaluation team believes the ATO has a coordinating function not a supervision function in working with Cooperators on cooperator programs.

8. The evaluation team strongly recommends that Cooperator home offices provide extensive training programs for their field office representatives. In addition, the field cooperators need periodic follow-up advice and guidance from the home office. This is especially true for new employees but is also important for "old hands".

9. FAS/Washington needs to provide more information to the U.S. Trade describing the pressence of the Agricultural Trade Offices and of the services that are available. It is also important for the U.S. Trade to be instructed what is expected of them if they choose to utilize the ATO facilities.

10. FAS/Washington should develop a systematic method or scheme for evaluating the efficiency and effectiveness of ATO's. Although it is possible to generate a "gut feeling", few measurements are available to rigorously "quantify" ATO performance. Although the number of trade contacts can be counted and initial sales fairly accurately estimated, the means to identify and estimate medium to long run sales resulting from the ATO's initially-arranged contacts between buyers and sellers does not exist. It is highly unlikely that this information will be available in the

future, but it may be possible to develop alternative criteria or measurements. Factors likely to affect the efficiency and effectiveness of ATO such as location, physical facilities, training and experience of staffing, and the kind and intensity of promotional activities, should also be identified and analyzed.

AGRICULTURAL TRADE OFFICE EVALUATION - LONDON

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Date of Evaluation: September 14-16, 1981

INTRODUCTION

The Agricultural Trade Office in London was officially opened on May 26, 1978. The office brings together into one central location the London staffs of the U.S. Feed Grains Council, the Poultry and Egg Institute of America, and the U.S. Meat Export Federation. In addition, the office includes an Agricultural Trade Officer attached to the American Embassy. He directs export developments for U.S. farm products in the United Kingdom. U.S. agricultural sales to the U.K. in FY 1981 amounted to over $1 billion.

EVALUATION PROCEDURE

The evaluation team followed a pre-set agenda with discussions and/or meetings with the Agricultural Trade Officer and Staff, the Ag Counselor and Staff, key Embassy staff, the on-site Cooperators, and United Kingdom importers. This report will provide a section on each of these meetings and will close with specific recommendations.

AGRICULTURAL TRADE OFFICE (ATO) AND STAFF

The ATO in London is located at 47 Upper Grosvenor Street, just across the street from the American Embassy. Staffing for the ATO consists of an Agricultural Trade Officer, senior marketing specialist, and a secretary. Also located in the ATO are representatives and supporting staff of three Cooperator organizations -- Poultry and Egg Institute of America, U.S. Feed Grains Council, and U.S. Meat Export Federation.

The espirit de corps of the ATO staff appears to be excellent. The staffing level of the ATO is sufficient to carry out the essential functions of the office. Major functions include: (1) developing contacts with the British food industry (processed agricultural products); (2) providing British importers/buyers with the appropriate names and addresses of U.S. suppliers; (3) providing FAS/Washington with a listing of British importers expressing interest in imports of specific U.S. agricultural and food products (for TORS); (4) working with U.K. importers to resolve problems arising in the importation of U.S. agricultural products; and (5) carrying out required administrative responsibilities. Other activities carried out by the Agricultural Trade Officer include responding to trade inquiries about shipment of U.S. agricultural and food products to the Middle East and Africa (through British contacts or directly to trading officials from the Middle East and Africa) and providing consultations on market development activities to other selected U.S. attaches/counselors on the continent.

Physical facilities for the ATO consists of the basement, 1st, and 3rd floor of the building located at 47 Upper Grosvenor Street. The structure is poorly suited to the needs of an ATO due to the rather substantial length but narrowness of the building, the extreme dampness and undesirable appearance and odor (on occasion) of the basement offices, and the lack of a conference room, kitchen facility, and adequate display area. Although the ATO is convenient to the U.S. Embassy, it is not located in the main trading center of London. The 5-year lease on the building has another 22 months until expiration.

Approximately 350 tradesmen visited the Agricultural Trade Officer during September 1980 through August 1981. The number of traders making initial sales is not known since this information is not routinely communicated to the ATO (buyers and sellers generally view the ATO as a medium for bringing them together and not necessarily entitled to sales information). Some U.S. tradesmen have used the ATO facilities, as well as Embassy facilities, to demonstrate or exhibit their products to potential customers.

ATO AND AGRICULTURAL COUNSELOR

The Agricultural Counselor in the United Kingdom is newly arrived so that "actual" working relationships between the Agricultural Trade Officer and the current Agricultural Counselor cannot be addressed at this time. It would appear, however, that the Counselor will take an active role in market development. He indicated he and the Agricultural Trade Officer fully intended to establish long range goals and/or programs to enhance U.S. agricultural trade. In addition, he and his staff will be developing market profiles by commodity as well as providing support to the ATO with statistical and market analysis, trade policy information, and overall guidance.

Activities by the ATO and the Agricultural Counselor's Office (ACO) have been complementary in the past. The ATO has handled trade contacts and market development programs for processed agricultural products, while the commodity analysts on the ACO's staff have dealt with the bulk commodities. Frequent trade-related discussions occur between the ATO and the commodity analysts.

The Agricultural Trade Officer reports to the Agricultural Counselor. FAS-Cooperator annual market development plans for the United Kingdom will be approved by the Agricultural Counselor after review and recommendation by the Agricultural Trade Officer.

ATO AND COOPERATORS

There does not appear to be any major conflict and/or problems between the Agricultural Trade Officer and the Cooperators. There is, however, some misunderstanding of the office concept and how involved the Trade Officer should be with Cooperator programs. During the discussions, the Cooperators presented some opposing views regarding the benefits of the ATO.

All Cooperators are agreed that the physical facilities of the ATO are undesirable and inadequate to their needs. The Cooperators desire relocation as soon as possible but are resigned to remain at 47 Upper Grosvenor Square for 22 more months.

Although no Cooperator recommended extensive modifications to their existing offices, they did point out the need for immediate improvements in some areas (proper storage space for documents, installation of dehumidifiers, concealing of plumbing, and improved security). Some concern was expressed that the Cooperators may have gotten ~~the~~ short end of the stick on office location and restoration.

Two of the Cooperators felt that the ATO was beneficial to them in terms of interaction with the Agricultural Trade Officer and with fellow Cooperators. One Cooperator felt that he could operate just as effectively without an Agricultural Trade Officer as with one. He indicated possible trade leads beneficial to and affecting other Cooperators could be passed along to the other Cooperators by phone and need not be done within the confines of the ATO.

All of the Cooperators are responsible for market development activities in areas additional to the United Kingdom. This necessitates a substantial absenteeism from the office for Cooperators (one Cooperator was away from the office 75 percent of the time). The Agricultural Trade Officer tries to provide some backstopping for Cooperators (which is not always welcome) during their absence from the office. It should be understood that the role of the Trade Officer is to coordinate, not to supervise.

The Cooperators, on matters needing a decision, tend to deal directly with the Agricultural Counselor (and commodity analysts) in the Embassy and with the Agricultural Counselor/Attaches of other countries rather than with the Agricultural Trade Officer. Regularly scheduled meetings are not held between the ATO and Cooperators.

Cooperators seemed generally uninformed about the services which the Agricultural Trade Officer could provide in requesting Attache Commodity reports, trade information, and other publications from USDA/Washington for their use as reference materials. In most cases, the Cooperators at the ATO simply don't know of the vast array of data available. The Counselor and the Trade Officer need to advise the Cooperators of these services.

Two of the Cooperators felt that periodic meetings (perhaps biweekly) with the ACO staff and the Agricultural Trade Officer would be beneficial in keeping current on policy matters and on commodity prices and market developments.

The Cooperators view the Agricultural Trade Officer as beneficial in handling administrative aspects of arranging for physical facilities and in dealing with the landlord on matters of rent, repairs, and building modification.

The Agricultural Trade Officer co-reviews and co-approves the market development plans developed by the Cooperators with the Agricultural Counselor. In preparing the plans, the Cooperators sometimes hold discussions with the commodity analysts on the Agricultural Counselor's staff.

ATO AND UNITED KINGDOM TRADERS

United Kingdom traders, on the basis of contacts made during the visit, consider the ATO as a focal point for servicing. The ATO is generally believed to offer advantages over and above those which would be obtainable from the Attache/Counselor's Office (difficulty of access to the Embassy, a lack of time for the Agricultural Counselor staff to focus on detailed trade matters, and a more formal constraining atmosphere in the Embassy).

The general feeling is that the United States should more aggressively promote and service their agricultural trade. Many other countries have better promotional programs and provide better services to the United Kingdom importer/buyer than does the United States. Competition in the United Kingdom market is very keen.

More specificially, the United States must use more promotional materials to advertise its product. The generic advertising of a product, such as "U.S. wines", is strongly recommended. In addition, United Kingdom traders strongly emphasized the need for ready availability of U.S. inspectors to assist and advise when disease outbreaks or other problems occur on imports. The United States was encouraged to be more aggressive in trade negotiations and to push harder on access to the EC market.

The ATO has been successful in establishing key import/buyer contacts in the processed foods industry. Most of the contacts have been achieved through direct personal contacts, trade promotion activities, through U.S. exporters seeking U.K. importers/buyers, or by contacts with British importers/buyers seeking specific U.S. products. The flow of information between the ATO and U.K. traders appears to be excellent.

Plans to hold monthly luncheons with the U.K. trade should result in improving already good relations between the ATO and the traders. More frequent participation by USDA officials in commodity marketing conferences to explain U.S. policies and to enunciate the U.S. point of view should be beneficial.

RECOMMENDATIONS

1. Due to the specialized functions of the ATO, great care should be exercised by the FAS/Washington leadership in placing the most qualified individual at this post. The London Agricultural Trade Officer should

be strong in marketing concepts, committed to the marketing of value added products, and be able to work closely with the U.K. trade. Any specialized training related to the above characteristics needed by the Trade Officer prior to assignment should always be given.

2. FAS/Washington should begin immediately to reach a decision on whether to move the London ATO to improved quarters or not. If the decision is to move, then the Trade Officer and staff should begin ASAP to seek office facilities and develop plans for refurbishing and renovation, if necessary. If the decision is not to move, then considerable planning for major renovation in the present facilities is necessary.

3. Adequate, comfortable space should be assured to the Agricultural Trade Officer and staff, and Cooperators and their staff. A conference room (accommodating at least 30 persons), kitchen facilities and generous display space should be provided. If possible, the ATO should be located in the trade district. The ATO need not be located close to the American Embassy.

4. Some improvements at the present location of the ATO should be made immediately. The basement of the ATO in London should be equipped with dehumidifiers to significantly reduce dampness. The ATO and Cooperator staffs should assess storage capacity needed for essential publications and documents and the necessary equipment purchased and located in areas not subject to severe dampness. Alternatively, FAS/Washington could consider relocating the ATO as soon as possible, forgo any further expense on improving current facilities, and bear the loss of remaining rental payments.

5. The relationship between the ATO and Agricultural Counselor's office should not be changed. Benefits can accrue to U.S. agricultural trade interests when there is a close cooperation between the ATO and the commodity analysts. The requirement that the Agricultural Trade Officer report through the Agricultural Counselor should not be changed. However, the Agricultural Trade Officer should be permitted to fully apply his/her initiative in formulating trade promotion programs and trade contacts to increase U.S. agricultural exports.

6. An increased effort should be made to keep the Ambassador and the DCM fully apprised of activities of the ATO in order to gain their full support and enthusiasm for the FAS/USDA market development program. The strong relationship developed between the ATO and Department of Commerce Officials (including the International Marketing Center) should be continued.

7. Regularly scheduled meetings between the ATO/ACO and the Cooperators should be arranged. A biweekly meeting should be tried, but changed to another time frame if proven inappropriate.

8. The Agricultural Trade Officer must assemble and maintain a reference file of USDA information and reports beneficial to Cooperators in their work. Cooperators should be encouraged to ask the ATO to obtain any information from USDA/Washington which might be helpful to their market development programs.

9. The Agricultural Trade Officer must provide more definite information to Cooperators regarding the specific objectives of visitors to the ATO. It may be necessary to follow-up with FAS/Washington to obtain additional details on visits.

10. The Agricultural Trade Officer in London operates a country market development program while the Cooperators operate a regional program. This can prove somewhat frustrating for the Trade Officer since Cooperators are frequently absent from the ATO and consequently unavailable to service the U.K. market (one Cooperator essentially provides no servicing of the U.K. market). The Cooperators need to keep the Trade Officer better informed of their travel plans.

11. The ATO must provide immediate and personal service to U.K. importers/

buyers experiencing problems on imported U.S. agricultural commodities. FAS Form 802 should be completed immediately and sent to FAS/Washington for action. Vigorous follow-up to determine Washington progress is essential.

12. FAS/Washington should work with the London ATO to evaluate the costs/benefits of carrying out the generic promotion of U.S. agricultural products. Regional advertising may offer economies of scale.

13. The ATO, FAS/Washington, and Cooperators should collectively develop plans for a more intensive promotional campaign in the United Kingdom for U.S. agricultural commodities. Arranging U.K. importer/buyer teams to the United States could be a component of a more intensive promotional effort.

APPOINTMENT

SCHEDULE

for Messrs Cannon, Friend and Tucker
September 14 - 16, 1981

MONDAY, SEPTEMBER 14:

9 a.m. Agricultural Counselor and ATO Staff
(In Counselor's Office)

followed by meetings with Embassy officials

p.m. Visits to any of the following:

MARKS & SPENCER LTD (Food Hall)
Oxford Street, Marble Arch
London W1

SELFRIDGES FOOD HALL
Oxford Street
London W1

SAFEWAY FOOD STORE
Edgware Road
London W1

HARRODS FOOD HALL
Knightsbridge
London SW1

TUESDAY, SEPTEMBER 15: AT ATO OFFICE

0930 Meeting with ATO and Cooperator staffs followed by individual appointments with Cooperators.

1100 US Feed Grains Council

1300 Poultry & Egg Institute of America

1430 US Meat Export Federation

Mr. Keith Sims
J.O. Sims Ltd
Borough Market
London SE1 9AQ

Mr. Trevor Blashfield
and Stuart Elliott
Universe Foods Ltd
183 Heath Road
Twickenham
Middlesex TW1 4BH

Mr. John Mawby
J.L. Mawby & Co Ltd
Mawby House
28 Spittal Street
Marlow, Bucks

Mr. Geoffrey Roberts
Geoffrey Roberts Associates
8 Dilke Street
London SW3

Mr. J. Alastair Walker
Divisional Manager, Food Hall
Harrods Ltd
Knightsbridge
London SW1X 7XL

Mr. H.A. Decker
L.J. Minor Cor
71 Ivy Street
London N1

Mr. John George
G. Costa & Co Ltd
Staffordshire Street
London SE15 5TL

Mr. Simon Ladenburg
Caxton Wine Ltd
2a Duke Street
Manchester Square
London W1M 5AA

Mr. S.J. Kerr
Peabody Foods Ltd
Addleston Trading Estate
Addleston, Weybridge
Surrey KT15 2RP

WEDNESDAY, SEPTEMBER 16:

At ATO Office

0930
Mr. Garry Peck, General Manager
O.C.A. (Great Britain) Ltd
49 Wellington Street
Covent Garden, London WC2

UK agent for D.N.E. Sales Inc.
Florida grapefruit and TCX grapefruit

1000 a.m.
Mr. Paul Weiser, Managing Director
P. WEISER (LONDON) LTD
Unit B, Western Trading Estate
Trading Estate Road
Park Royal, London NW10 7LU

UK agent for various US fresh fruit & vegetable companies

1045 a.m.
Ms. Maureen Berry
PASTA FOODS LTD
244 London Road
St. Albans, Herts

Imports durum wheat for manufacture of pasta products

12 noon
Luncheon at US Embassy with UK trade -- see attached listing of invitees

2:30 p.m.
Tommy Fordham, Director
C.R. BARRON LTD
145/147 St. John Street
London EC1

(UK Importer of US meats and variety meats)

Mr. Robert T. McKenzie
Consultant
108 Madeira Avenue
Bromley, Kent B1 4AS

Mr. A.C. Nicholls
Rakusen Foods
A3 Bankfield Trading Estate
Reddish, Stockport

Mr. A.C. Cox
Caterplan Division
CPC (UK) Ltd
Claygate House
Esher, Surrey

Mr. Stephen Billyield
Marks & Spencer Ltd
Michael House
Baker Street
London W1

Mr. Dennis Jenks
Jenks Brothers Foods Ltd
Castle House
71/75 Desborough Road
High Wycombe, Bucks

Mr. Neil Telfer
TFC Foods Ltd
P.O. Box 92
Hull HU3 4TH

Mr. P. Vogl
W&P Foods Ltd
15/19 Circus Road
London NW8

Mr. R.V. Lord
Stuart Cabeldu Catering Ltd
162/164 Arthur Road
Wimbledon Park
London SW19 8AH

Mr. Ed Driggs
24 De Walden Street
London W1

Mr. R.B. Benson
F.R. Benson & Partners Ltd
104/108 Oxford Street
London W1N OAE

AGRICULTURAL TRADE OFFICE EVALUATION - HAMBURG

Evaluation Team:	Norman Tucker, H.W. Longacre, Inc. Reed Friend, Economic Research Service, USDA Richard Cannon, Foreign Agricultural Service, USDA
Date of Evaluation:	September 17-21, 1981

INTRODUCTION

The Agricultural Trade Office in Hamburg was officially opened on November 19, 1979. The Office brings together into one central location the Hamburg staffs of the Poultry and Egg Institute of America, the U.S. Meat Export Federation, and the National Forest Products Association/National Lumber Exporters Association. In addition, the Office includes a Agricultural Trade Officer attached to the American Embassy in Bonn. He directs export developments for U.S. farm products in West Germany. U.S. agricultural sales to Germany in FY 1980 amounted to over $1.8 billion. The figure does not include a substantial quantity of products transshipped through the port of Rotterdam.

EVALUATION PROCEDURE

The Evaluation Team followed a pre-set agenda with discussion and/or meetings with the Acting ATO (Agricultural Counselor) and the Trade Office Foreign National staff, Agricultural Counselor, on-site cooperators, West German importers, and the former Agricultural Trade Officer. The office is currently without a permanent Trade Officer as that position is in transition waiting for the new officer to arrive. This report will provide a section on each of those meetings and will close with specific recommendations.

AGRICULTURAL TRADE OFFICE (ATO) AND STAFF

The U.S. Agricultural Trade Office is located at Grosse Theaterstrasse 42, 2000 Hamburg 36, about 300 miles from the U.S. Embassy in Bonn. Office staff at the time of the team visit consisted of a Temporary Director (the U.S. Agricultural Counselor at Bonn), a Senior Agricultural Specialist, an Agricultural Specialist, and a Secretary (unlike the London ATO, the ATO in Hamburg has a reporting responsibility which includes both cotton and tobacco). The previous Trade Officer ended his ATO tour and returned to Washington, D.C., in September of 1981. Cooperator organizations located at the ATO include the Poultry and Egg Institute of America, the U.S. Meat Export Federation, and the National Forest Products Association/National Lumber Exporters Association. Other cooperator organizations located in Hamburg include the U.S. Feed Grains Council (a person under contract) and the American Soybean Association. The California Cling Peach Advisory Board/Florida Citrus Commission and the International Institute for Cotton are located at Frankfurt.

The ATO in Hamburg opened in September 1979 and is located on the 6th floor of a modern office building. The offices are quite comfortable and the space is more than ample for the ATO and cooperators currently at the location. There is a small conference room but no significant kitchen facilities.

Local staff at the ATO felt that significant progress had been made in the operation of the ATO. The first year was spent largely in becoming operational, advertising the ATO, and making trade contacts. The second year has been spent on substantive activities involving trade promotion. Although promotional activities were rather ineffective for popcorn and peanut butter, significant results were achieved for wine, pecans, and lumber. Efforts to participate in a trade fair in East Berlin fizzled out.

Eighty-percent of U.S. agricultural exports shipped to West Germany are covered under market development activities by U.S. Cooperators, about 20 percent are covered by the Trade Officer and his staff. Fifty-percent of U.S. agricultural exports to West Germany are oilseeds and grains; 30 percent are cotton, tobacco, and fruits and vegetables. The remaining 20 percent are a wide array of agricultural commodities and processed foods.

The facilities are being used by U.S. tradesmen. During the last 12 months, 423 U.S. tradesmen visited the ATO. The number successful in making initial sales is not known. The Acting Trade Officer felt that it was extremely difficult to entice West German importers/buyers into the ATO functions since they already have established contacts in the trade. Also, security controls and lack of parking facilities were believed to be additional handicaps. The staff of the Acting Trade Officer felt that they were contributing a valuable service to West German importers/buyers as well as to U.S. exporters making inquiries about the West German market.

Staffing at the ATO is probably more than sufficient to meet purely market development needs. The relocation of cotton and tobacco reporting to Bonn would reduce staff requirements to three persons. However, a staff of three persons at the ATO would require assistance from commodity analysts at Bonn on a more frequent basis. In addition most market demand studies would also need to be carried out at the Embassy in Bonn.

ATO AND THE AGRICULTURAL COUNSELOR

The Agricultural Counselor delegated to the previous Trade Officer the authority to approve all cooperator market development plans for West Germany. This delegation of Authority will not be immediately given to the new ATO Director. An information copy of all correspondence signed by the ATO Director is sent to the Agricultural Counselor.

Requests pertaining to market development which come to the ATO in Hamburg are handled there; requests which come to Bonn are handled by the ACO. Probably the split is 80 percent Hamburg, 20 percent Bonn. Concern was expressed that some of the responses prepared in the ATO lacked technical accuracy since the Agricultural Specialist was not reporting on or familiar with that specific commodity. Getting all of the facts from the commodity analyst was not possible by phone.

There is some duplication of effort between Hamburg and Bonn on the getting together of buyer and seller. Under a strict interpretation of ATO responsibilities, the ATO should have responsibility for fair activities. Nevertheless, the ACO will be responsible for Green Week, the ANUGA fair in Cologne, and the ICOFA fair in Munich.

Trade complaints may go initially to the ATO, but matters of any significance, particularly for bulk commodities, are sent on to the Agricultural Counselor. Consequently, according to the Acting Trade Officer, the ATO is not necessary in the handling of trade complaints.

The ATO-ACO relationship has worked because the Trade Officer and the Agricultural Counselor have been flexible enough to make it work. A deliberate attempt was made by the Agricultural Counselor to grant increased authority to the ATO Director and to minimize time spent at the ATO.

The ATO has little direct contact with the Embassy other than through the ACO. Both the Ambassador and the DCM are kept informed of the major activities/functions of the ATO by the Agricultural Counselor. The ATO has practically no contact with the Commercial Attache in Bonn. He does have a good rapport with the Consulate in Hamburg, working closely with the Consulate General and the Econ/Commercial Officer.

ATO AND THE COOPERATORS

All of the Cooperators contacted felt that the ATO performed useful functions. However, there was a considerable difference in opinion as to the value of collocation, specific benefits of the ATO, and the desirability of maintaining independence from an U.S. government agency.

The most frequently mentioned benefit of the ATO was the administrative function it performed, approval of 202's, interpreting U.S. government regulations, and providing telex and reproduction services. On the other hand, several cooperators indicated that the ATO staff seemed overwhelmed with paperwork so that little time was available for trade contacts and basic market development work.

All of the Cooperators feel that the physical facilities are comfortable and conveniently located within Hamburg. A few Cooperators indicated that space should be made available within the office complex for product display. All of the Cooperators strongly feel that separate entrances to the ATO and the Cooperators' offices should be maintained.

The Cooperators collocated within the ATO in Hamburg were highly complimentary of the benefits of the ATO. Availability of excellent facilities, administrative and technical assistance extended by the ATO staff, the availability of telex and reproduction equipment, and opportunity for exchange of information and ideas with other Cooperators were mentioned as positive factors favoring collocation. These Cooperators did not seem to know or to be concerned with the rental cost of the facilities. Neither did these Cooperators seem overly concerned with their trade contacts knowing that they were partly funded by the U.S. Government.

Cooperators (or representatives) of bulk commodities not collocated within the ATO expressed somewhat different views. Collocation was felt undesirable because low rental rates were available at current locations, an established long-term location is essential to service the trade, the appearance of complete independence from a government agency must be maintained to be effective, telex information going into the ATO is censored and would be of little benefit, and ATO's are likely to be temporary.

The ATO was not reviewed as being of much benefit to Cooperators in handling trade complaints. Most of the Cooperators indicated that they would first try to handle the complaint themselves but that if major assistance was needed, they would contact the Agricultural Counselor.

One Cooperator felt that the ATO should service a region rather than just servicing West Germany. Every time a Cooperator travels outside West Germany, it is necessary to obtain out-of-country authorization which could be avoided with the regional concept. Some of the other Cooperators felt that their multicountry responsibilities could be better coordinated from locations other than Hamburg (Frankfurt and Brussels, Belgium were cited).

The general impression conveyed by the Cooperators is that an ATO in Hamburg is essential to promote sales of U.S. agricultural products. Although an ATO can prove highly beneficial to Cooperators trying to get estabished, long-established Cooperators already have their place of business and a complete knowledge of buyers and sellers. The ATO is viewed as being of considerable benefit to the marketing of processed agricultural products, but of little if any benefit in promoting the sale of bulk commodities.

The ATO/Cooperator relationship seemed to be working relatively smoothly. Cooperators collocated with the ATO felt that the Trade Officer was not looking over their shoulders but that he was available when needed. Regularly scheduled meetings are not held between the ATO and the Cooperators. Some friction has evolved between the Cooperators and an Agricultural Counselor outside of West Germany. A determination as to the justification for this friction and how to eliminate the friction will require further investigation by FAS/Washington.

ATO AND THE WEST GERMAN TRADE

The Team visited the offices of three tradesmen -- a grain importer, a fresh fruit and vegetable importer, and a representative of the tobacco importers.

All of the traders were highly complimentary of the ATO and felt that no changes whatsoever were needed since the ATO was already effective. However, they pointed out that the Trade Officer in Hamburg should be market/trade oriented and have the capability to think German and European.

The grain importer emphasized the need for an ATO for public relations purposes and to help in interpreting the complex regulations and decisions coming out of Washington. The soybean export controls during the Nixon administration and the grain export controls during the Carter administration are examples of where the ATO can perform a useful function on discussions with the trade. The ATO can also be beneficial in interpreting and explaining U.S. farm programs.

The ATO is viewed by the grain trade as being helpful in the settlement of a claim. Location of the ATO in Hamburg is much more convenient than trying to contact the Agricultural Counselor in Bonn when there is a frequent turnover in the position, and the Counselor may be unavailable or have little specialized knowledge on grain trade. The strength of the ATO, however, will depend on the officer in charge.

Cooperators, such as the U.S. Feed Grains Council and the American Soybean Association, work with their customers in providing technical advice. The trader that met with the Team had little contact with the Cooperators although he was well-aware of their existence and their role.

The grain trader spoke well of the receptions hosted by the ATO and felt that it effectively brought together people with mutual interests. He was not aware of any other countries that had offices in Hamburg similar to the ATO. The trader did mention the Canadian International Grain Institution and said that he had personally attended one of their courses.

The fresh fruit and vegetable trader indicated that he had received excellent help from the ATO in locating U.S. suppliers of specific products. He had not personally attended nor was he aware of any receptions hosted by the ATO. The first acquaintance with ATO officials was when they visited his office.

Prior to the ATO, the trader depended on his U.S. supplier of a commodity to recommend sources of other commodities. The trade works closely with Sunkist on citrus supplies. He said the United States operates at a disadvantage in the EC because many other suppliers such as Israel, receives preferential tariff rates. A stronger dollar, and the reduced availability from the United States (due in part to the medfly) has drastially cut fresh citrus imports from the United States.

Although the Israeli Sales Marketing Board has an office in Hamburg which can provide information on production, prices, shipping costs, etc., there is no particular advantage to this since the trader can get good information from supplier firms in the United States as well as work closely with Sunkist and the ATO.

The tobacco trader stressed the long-standing relationship he had enjoyed with the Senior Agricultural Specialist, ATO (and the American Consulate General in Bremen where the tobacco report for FAS/Washington had been prepared for years). Several visits had been made to the ATO since its establishment in 1979 and the exchange of information is quite useful.

During the "Tokyo Round", meetings were organized through the ATO to monitor the trade discussions on tobacco. This forum provided a useful means of bringing interested people together and to discuss various points of view. The most important traders were at the meetings.

The relationship with the ATO is extremely close and he knows of no way to improve the effectiveness of the ATO. Communications are excellent. Location of the ATO is appropriate for tobacco since imports are only through Bremen and Hamburg. The United States supplies 20 percent of West Germany's imports of tobacco.

FORMER AGRICULTURAL TRADE OFFICER

The former Trade Officer had high praise for the staff at the Hamburg ATO. He indicated they have a strong dedication to U.S. market development and the

Trade Office concept.

The Trade Officer indicated that the loss of Pieter Berben to retirement will be significant. Mr. Berben also has tobacco reporting responsibilities and care should be given to the decision on whether that should be done in Bonn or Hamburg. This is a decision that the Counselor and the Attache Service needs to decide soon.

According to the Trade Officer, the work of the office should be primarily on bulk commodities because that is what the trade consists of in Germany. Value added products are difficult to promote because of the strict German laws on additives, labeling, etc.

The three promotional events in Germany (ANUGA, Green Week, and ICOFA) are currently handled by the Embassy staff. It was indicated that the ATO should be more directly involved particularly with ANUGA and ICOFA.

RECOMMENDATIONS

1. Although the previous Trade officer was viewed as extremely knowledgeable on grain trade, the limited involvement of the ATO with Cooperators handling bulk commodities would not seem to call for an in-depth knowledge of this type. However, FAS/Washington leadership should exercise care to select a person with good administrative ability (to find ways to expedite the paperwork), of high professional caliber, and market development oriented towards value added agricultural products.

2. The new Trade Officer and the Staff of the ATO, in conjunction with the Agricultural Counselor, should make minor changes in the office layout to accommodate a product display area.

3. The Agricultural Counselor and the ATO should establish the goal of moving reporting on cotton and tobacco to Bonn and use the staff at the ATO for market development activities only.

4. Because of the 300 mile separation, satisfactory working relationships between the Agricultural Counselor and the Trade Officer are especially difficult to establish. Clearly, the Trade Officer must be given more authority to act on behalf of the Agricultural Counselor than when the two are close together (e.g., London). Perhaps the best policy is for the Agricultural Counselor to extend greater authority only as the Trade Officer demonstrates ability to assume more responsibility.

5. A system must be put in place so that ATO staff members are better able to draw on the commodity analysts in the ACO to insure accuracy and completeness in responding to market development queries. The Agricultural Counselor should instruct commodity analysts to routinely send clippings and other information relating to market development to the Trade Officer so that the ATO staff can better perform their responsibilities. The Trade Officer must keep the Agricultural Counselor informed at all times of significant developments at the ATO. A joint monthly meeting between professionals of the ATO staff and the Agricultural Counselor and commodity analysts woud seem desirable, but may be impossible due to lack of travel funds.

6. The Ambassador and the DCM must be kept fully informed of activities of the ATO in order to gain their full support and enthusiasm for the FAS/USDA market development program. An increased effort shoud be made to develop a stronger relationship between the ATO and the Department of Commerce market development officials.

7. Scheduled monthly meetings should be started on a trial basis between the Trade Officer and the Cooperators to facilitate the exchange of administrative information as well as other substantive market development information. When possible, the Agricultural Counselor and commodity analysts -- especially for a commodity area wherein important changes have recently occurred -- should be in attendance. If this is not possible, the ATO staff should meet with the Cooperators after visiting the Agricultural Counselor and the commodity analysts. If these monthly meetings do not prove beneficial, they should be discontinued.

8. The Trade Officer should keep the Cooperators fully informed of reports and information available from USDA that would be beneficial to their programs. This information would include commodity specific data on production, consumption, trade, prices, and marketing channels as well as other items.

9. FAS/Washington should work with the ATO to evaluate the costs/benefits of carrying out the generic promotion of U.S. agricultural products in

West Germany. Some form of regional advertising may offer economies of scale.

10. Although one Cooperator suggested that the ATO in Hamburg be expanded to a regional office, no change is recommended at this time. The responsibility that Agricultural Attaches/Counselors must have to keep fully informed of activities in their assigned country complicates the ATO "regional concept" in Western Europe. However, FAS/Washington should study the matter further to assess the pros and cons of the proposal. All of the Cooperator's market development programs do include more than one country.

11. Based on the trade contacts made by the Team, market development activity in West Germany seems to be heavily weighted towards the bulk commodities. If this situation is true, more emphasis should be given to market development of processed (value added) agricultural commodities.

12. The ATO needs to extend its market development activities on a more frequent basis to areas outside of Hamburg. Perhaps one way of doing this is to tie onto trade activities being conducted by Commercial Attaches at American Counsulates at various locations in West Germany.

Schedule of Events
for the
Agricultural Trade Office Evaluation Team
in Hamburg / Germany
September 17 through 21, 1981

ATO Staff

Director - position vacant
ATO is temporarily directed by Dale B. Douglas, Agricultural Counselor, American Embassy, Bonn, pending arrival of Jon E. Falck.

Pieter C.G. Berben - Senior Agricultural Specialist
Christel E. Wagner - Agricultural Specialist
Birgit Walther - Secretary

****

September 17, Thursday

12:55 Arrive Hamburg Airport, flight PA 102
to be met by Dale B. Douglas and Pieter Berben

14:00 Parkhaus Hotel Oper, Drehbahn 15

14:30 Agricultural Trade Office
Introduction to ATO staff
Tour of ATO
Introduction to co-located Cooperators
Review of ATO operations

16:00 American Consulate General
Meet: Consul Robert C. Stebbins (Acting Consul General)
Discuss ATO/ACG relationship

September 18, Friday

09:00 Group meeting with Cooperators in ATO
Dr. Klaus Werner - U.S. Feed Grains Council
Dr. Karl Fangauf - American Soybean Association
Uwe Schmoock - Poultry & Egg Institute of America
Willem Zerk - U.S. Meat Export Federation
Michael Sholar - National Forest Products Association/ National Lumber Exporters Association
Heinz Falkenstein - California Cling Peach Advisory Board/ Florida Citrus Commission

Individual meetings with Cooperators

11:00 Uwe Schmoock - PEIA
12:00 Dr. Klaus Werner - USFGC
13:00 Lunch
14:00 Heinz Falkenstein - CCPAB/ FCC
15:00 Dr. Karl Fangauf - ASA
16:00 Willem Zerk - USMEF
17:00 Michael Sholar - NFPA/NLEA

September 21, Monday

Meetings with Individual Tradesmen

09:15 Mr. Peter Stade
FRUMENTUM GmbH
Alter Steinweg 66 (Grain Importers)

10:30 Mr. Reinhard Feindt
EDEKA Fruchtkontor GmbH
Amsinckstr. 66 - Grossmarkt (Fruits & Vegetables Importers)

11:30 Dr. Harald König
Cigarette Manufacturers Association
Harvestehuderweg 88 (Represents Tobacco Importers)

12:30 Lunch

14:00 Debriefing in ATO

15:30 Return to hotel

16:00 Leave hotel

16:30 Arrive at Airport

17:20 Depart for Warsaw, flight LO 254

AGRICULTURAL TRADE OFFICE EVALUATION - WARSAW

Evaluation Team:	Norman Tucker, H.W. Longacre, Inc. Reed Friend, Economic Research Service, USDA Richard Cannon, Foreign Agricultural Service, USDA
Date of Evaluation:	September 22-23, 1981

INTRODUCTION

The Agricultural Trade Office in Warsaw was officially opened on May 28, 1980. The office serves as a focal point for market development activities of U.S. agricultural products in Poland, Czechoslovakia, Hungary, and Romania. These countries are a market for about $1 billion of U.S. agricultural products almost all of which are under credit-type arrangement. The Warsaw office assists non-profit trade associations (cooperators) currently working in Eastern Europe.

EVALUATION PROCEDURE

The evaluation team followed a pre-set agenda with discussion and/or meetings with the ATO and staff, the Agricultural Counselor, Embassy officials, the Cooperators, and the Polish trade/importers. This report will provide a section on each of these meetings and will close with specific recommendations.

AGRICULTURAL TRADE OFFICE (ATO) AND STAFF

The ATO in Warsaw is located at Biuro Handler Rolnego, U.S.A., Wiejska 19, 00-480 Warsaw, a five minute walk from the U.S. Embassy. Staffing for the ATO consists of an Agricultural Trade Officer, Senior Marketing Specialist, and a Secretary. No Cooperators are collocated with the ATO or anywhere else in Warsaw, but there is substantial cooperator activity in the four country region.

The morale of the ATO staff appeared to be good during the limited time of observation available to the Team. The staffing level is believed to be sufficient to carry out the essential functions of the office. It is important to keep in mind that the ATO in Warsaw has responsibility for four countries. The Trade Officer estimated time spent on the four countries as follows: Poland - 76 percent; Romania - 13 percent; Hungary - 10 percent; and Czechoslovakia - 1 percent. Foreign purchases in all four countries are done by the Government.

Physical facilities for the ATO are located in a two-story building with the AT Offices on the first floor, but could conveniently house two Cooperators and their secretaries. The top floor is currently empty. The layout of the facilities is such that large receptions can easily be arranged. A formal dining room is available for seating approximately 10 people. Kitchen facilities are also available. However, the ATO, as presently laid out, will not accommodate satisfactory separate entrances for the Trade Officer and the Cooperators. No separate area has been set aside as product display space.

Approximately 103 official visitors visited the ATO during January through December 1980. The number of traders making initial sales is unknown but is believe to be neglible given the modus operandi of centrally planned governments. Both Cooperators and Polish government officials have used the ATO on numerous occasions.

The current market development activities of the ATO are centered almost entirely on working with Cooperators and bulk commodities. Although these activities are largely in Poland, they extend also to Romania and Hungary with hardly any activity in Czechoslovakia. Opportunities for sales of processed food products are viewed as almost nonexistent at this time.

ATO AND THE AGRICULTURAL COUNSELOR

The relationship between the Trade Officer and the Agricultural Counselor appears to be good. Although the ACO has delegated authority to the Trade Officer to approve Cooperator programs, both sign off on the Cooperator marketing plans for Poland.

Although there are many problems in doing so, greater emphasis should be given to longer term planning rather than just reacting to evolving situations. Increased emphasis may also be needed in developing new market development activities outside the framework of cooperator programs and in interpreting and abiding by FAS regulations.

There are other commodities that the Poles need such as hides and skins and tallow. A greater effort should be made to determine what they want and to see how we could help them obtain the commodities.

The Agricultural Counselor views the ATO as an extension of the Embassy. Commodity analysts on the Agricultural Counselor's staff provide useful information on Poland to the Trade Officer. A copy of everything that goes out from the ACO is sent to the Trade Officer. The ATO has blanket approval for travel and informs the ACO of travel plans after they are formulated.

The ideal person for the Trade Officer position needs to have a good knowledge of FAS regulations and, especially in the Polish market, of CCC credit. The person should also be fully informed on market development techniques. A person coming out of industry needs a thorough training course before being assigned to the field.

ATO AND EMBASSY OFFICIALS

U.S. Embassy officials were aware of the ATO. The DCM commented quite favorably on the operation of the ATO, the good will benefit which the ATO could help to generate between Poland and the United States, and the excellent working relationship between the Agricultural Counselor and the AT Officer.

The Administrative Officer has only recently arrived at post so was not directly familiar with ATO operations. However, he was aware of its existence, planned to visit the office soon, and assumed it was effective based on information provided him by his staff.

ATO AND THE COOPERATORS

Although no Cooperators are located in Czechoslovakia, Poland, Romania, or Hungary practically all of the market development activities of the ATO are associated with Cooperator programs. The major Cooperators in the region are traders of bulk commodities - the U.S. Feed Grains Council, American Soybean Association, Wheat Associates, the National Renderers Association, and the Holstein Fresian Association.

Based on conversations with one Cooperator contacted in Hamburg, Polish government officials, and the Agricultural Counselor, the ATO has been very effective in working with Cooperators. The ATO has been assisting Cooperators, in arranging various activities with the Poles including presentation of demonstrations and seminars, study teams to the United States, and animal feeding experiments. These activities are arranged with the Polish private sector as well as State farms.

The effectiveness of the ATO in Romania, Hungary, and Czechoslovakia is more difficult to assess since these countries were not visited by the Team. The general impression gained from the limited information available is that considerable work in conjunction with the U.S. Agricultural Attache and Cooperators is underway in Romania. Similar works are also underway in Hungary while activity in Czecholovakia is neglible. One of the constraints to expanding activities in Hungary and Czechoslovakia has been the difficulty of the U.S. Agricultural Counselor to these two countries to schedule time for the Trade Officer and government officials.

ATO AND THE TRADE

It is important to keep in mind that the ATO in Warsaw is located in an Eastern country where the purchasing of imports is controlled by the government. Consequently, the "trade" is an organization of the central government.

Officials of the organization BACUTIL, the nationwide manufacturer of animal feedstuffs, was extremely pleased with the services provided by the ATO. The ATO worked closely with Coopertors in their relationships with BACUTIL. Major Cooperators were the U.S. Feed Grains Council, the Americal Soybean Association, and the National Renderers Association. In addition, two U.S. based companies have been involved in discussions with BACUTIL, in cooperation with the ATO U.S. based agribusiness firms. Poland expects to begin importing premixed broiler feed from the United States on the basis of feeding trials conducted by one of the U.S. firms.

BACUTIL felt that the significant points to emphasize regarding the Cooperators and the independent companies, supported by the ATO, were as follows:

Availability to Poland of experts and the exchange of experiences and knowledge at the managerial level.

Seminars and symposiums delivered to Polish managers and manufacturers.

Provision for travel of study teams to the United States.

Feeding and nutrition trials and experiments using U.S. feedstuffs.

Exchange of information -- research materials, etc.

Based on the limited contacts with other countries, BACUTIL does not see how the scope of U.S.-Polish interaction would be possible without the ATO. All requests to the ATO have been answered promptly. The ATO has often taken the initiative to enter into new activities. Thousands of Polish farmers have indirectly benefitted from the services of the Cooperators, U.S. companies, and the ATO.

ROLIMPEX, the government importer of agricultural commodities, feels that establishing the ATO in Warsaw was a very positive thing to do -- it helped to expand the traditional trade between the United States and Poland.

Poland will remain an important market for the United States because of a continuing need for corn, wheat, and soybeans. Technical cooperation will remain very important with significant roles required by Cooperators, study teams to the United States, and the services of the ATO.

ROLIMPEX has received excellent cooperation from the ATO and there is currently no suggestions for improvement. The critical need at this time is to be certain of supplies of soybean, soy oil, and soymeal -- and later on corn -- from the United States under CCC credit (and PL-480). Once again, the feeding trials were mentioned and the intention to import premixed feeds was restated.

Although not a part of the trade, discussions were held with officials from the Ministry of Agriculture. It was stated that Poland intends to use more concentrated feeds in livestock production, including the import of premixed feeds.

The Vice Minister of Agriculture expressed his appreciation of the ATO for the positive help and assistance received. The ATO has served two functions -- a contact to secure the service of U.S. Cooperators and a contact for Polish interests. For example, a protocol was recently signed with the U.S. Feed Grains Council. The ATO is coordinating activities very well.

A long history of cooperation exists between Poland and the United States. PL-480 has been very beneficial. Poland needs the continued expertise and technical knowledge. The large imports of corn and soybeans from the United States provides a basis for this support.

The Vice Minister of Agriculture listed a number of "special interest" areas to the Poles. Most of the items of interest are highly technical and included the following:

Improvement of small farms to make them more productive.

Study of peanut photosynthesis.

Assimulation of nitrogen by plants.

Research on developing disease-resistent plants.

Research on disease-resistent bush beans.

Inquiry into why alfalfa seeds from California result in plant growth which provides very little forage.

The ATO Officer was asked to review the list and to see what help could be extended to the Ministery.

RECOMMENDATIONS

1. FAS/Washington needs to re-evaluate the purpose of the existence of the Trade Office in Warsaw. This is of utmost importance given the current economic climate in all four countries of responsibility. Benefits need to be expected and perhaps can be realized through the development of long range planning.

2. Because the functions of the ATO are specialized toward working with bulk commodity cooperators, care should always be exerted in selecting a Trade Officer with that type of background. The Officer should also be familiar with PL-480 and Credit programs, know the FAS regulations, and be able to adjust and work within the confines of the Eastern bloc.

3. The facilities in Warsaw are more than adequate to house the ATO and better use of space could be achieved if several cooperators were available for collocation. If Cooperators were to insist on an entrance to their offices separate from ATO, some modification of the building would be required. Consideration should be given to setting up a display area for agricultural and food commodities in the ATO.

4. Although the Trade Officer and the Agricultural Counselor in Warsaw have obviously established a good rapport, the AT Officer should keep the Agricultural Counselor fully informed of outgoing communications and of travel plans at their early stages of development.

5. Although admittedly difficult to formulate when activities are closely tied to Cooperator programs in the four countries, the AT Officer should try to develop a yearly work plan of scheduled events to insure efficient use of time. Joint discussions and planning with Cooperators and U.S. companies with activities in Poland would be essential in preparing this plan. Also essential to this longer term planning would be close coordination with the Agricultural Counselors/Attaches covering Poland, Hungary, Romania, and Czechoslovakia.

6. In addition, a 5-year plan/goal should be established in conjunction with FAS/Washington. This is of utmost importance given the economic climate of each of the countries and their inability to pay for imports.

7. The Trade Officer should attempt to institute some independent market development activities for introducing additional U.S. agricultural and food products into the four countries. Initially and in the short term, considerable caution and modest efforts should be made in this direction due to the state buying requirements, the depressed economy, and extreme shortages of hard currency, particularly in Poland.

8. FAS/Washington should insure that the Counselor/Attache for Hungary, Romania, and Czechoslovakia be advised to work closely with the Trade Officer to establish appropriate contacts in government which would be influential in the importation of U.S. agricultural products. On the other hand, the Trade Officer needs to get involved at the outset of Cooperator and other marketing activities in these three countries and work closely with and fully inform the Counselor/Attache of developments.

9. FAS/Washington may want to study and evaluate the role of the Trade Officer in working with exchange teams under OICD's Scientific and Technical Exchange Agreements. Some of the activities of these teams may be instrumental, indirectly if not directly, in affecting imports of U.S. agricultural commodities to the four countries. On the other hand, time used by the ATO staff in servicing OICD exchange teams will not be available for other activities.

UNITED STATES DEPARTMENT OF AGRICULTURE
FOREIGN AGRICULTURAL SERVICE
OFFICE OF AGRICULTURAL TRADE OFFICER

U.S. Agricultural Trade Office - Biuro Handlu Rolnego U.S.A.
Wiejska 19, 00-480 Warsaw. Phone: 214619, 298254, Embassy 283041 ext. 343.
Telex: 816131 USATO PL.

FAS Agricultural Trade Office Evaluation Team
Warsaw, Poland

Sept. 21-24, 1981

Purpose: To determine if the Agricultural Trade Office is carrying out the functions mandated by the Agricultural Trade Act of 1978 and its efectiveness in contributing to the expansion of the market for U.S. agricultural products.

Members: Richard J. Cannon, Asst. Administrator Commodity Programs, FAS/USDA

Norman Tucker, Director Export Sales, H. W. Longacre, Inc.
Rep. Poultry & Egg Institute

Reed Friend, Economic Research Service, USDA.

Schedule:

Mon., Sept. 21: Arrive Warsaw 8:05 p.m., LO-254.

Tue., Sept. 22: 8:50 a.m. - Meet in Hotel lobby

9:00 a.m. - Meet with ATO and Staff - 19 Wiejska
Mr. Jerzy Krzyżanowski - Trade Specialist
Ms. Krystyna Mróz - Secretary

11:00 a.m. - Meet with Agricultural Counselor and Staff, Rm. 26
Ms. Julianna Junosza-Szaniawska, Agr. Asst. Translator
Mr. Włodek Makowski, Agr. Asst.

12:00 noon - Meeting with DCM - Mr. Herbert E. Wilgis, Rm 400

13:00 a.m. - Lunch at Embassy snack bar.

3:00 p.m. - Meeting with Admin Officer - Michael McLaughlin, RM 102

3:30 p.m. - Meeting with GSO Officer - Russell King, Rm 10

4:00 p.m. - Meeting with B&F Officer - Richard Wood, Rm 14

Wed., Sept. 23 - 8:20 a.m. - Meet in Hotel lobby

8:30 a.m. - Meeting at BACUTIL
Mr. Leszek Iracki, General Director

9:30 a.m. - Meeting at ROLIMPEX
Mr. Jan Giedwidż, Director
Mr. Józef Danilczuk, V-Director

10:30 - 1:00 p.m. - Ag. tour south of Warsaw
Team, Ag. Counselor and ATO

1:00 p.m. - Luncheon meeting - Agricultural/Commercial
Counselors and Attaches Western Embassies
in Poland.
(British Country Club hosted by Mike Cohen,
Commercial Counselor, British Embassy.)

3:00 p.m. - Meeting at Ministry of Agriculture
Mr. Henryk Burczyk, V-Minister
Mr. Wiesław Czarnecki, a Director of Science
& Education Dept.
Mr. Andrzej Drewniak, Science & Education

4:00 p.m. - Windup meetings at ATO/Ag. Counselor Offices.

Thu., Sept. 24 - Depart Hotel 7:00 a.m. in Agric. Vehicle
- Depart Warsaw 8:40 a.m., LO-361

Reference Telephone Numbers:

American Embassy	- 28-30-41
Haviland	- Ext. 305
Larson	- Ext. 343
Haviland Residence	- 41-32-18
Larson Residence	- 45-22-45
Hotel Forum	- 21-019

Question: Are there any early indications that additional offices may be justified?

Answer: We are reviewing the possibilities for expanding ATO coverage for the Middle East. The Middle East is a rapidly expanding market but the U.S. market share is small.

Question: Could you add trade offices under your current request?

Answer: We could expand the operations of the Manama, Bahrain ATO to provide additional Middle East coverage under our current request.

Question: If not, how much extra funding will you require per each additional office?

Answer: Extra funding of approximately $400 thousand would be required for each additional trade office.

ATTACHES-TRADE OFFICES

Question: Do you plan any additional attaches in Fiscal year 1983?

Answer: The only additional American officers planned in fiscal 1983 are an assistant attache in Austria and an assistant to the Middle East trade officers in Bahrain; primarily to beef-up our efforts to expand exports to Eastern Europe and the Middle East.

Question: How are attaches and trade officers working together where there are both? How do their duties relate?

Answer: In countries where we have both agricultural attaches or counselors and trade officers, the agricultural attache or counselor is responsible for the whole gamut of agricultural activities in that country, including reporting, trade access matters, export credit programs, and general supervision and guidance for other USDA activities including the activities of the trade office in the market promotion field. In short, he serves as the Department's and Ambassador's principal representative for all in-country agricultural matters for which USDA has responsibility. Under the overall supervision of the agricultural counselor, the trade officer has the day-to-day operational responsibility for operations of the trade office, the market promotion activities funded directly by the FAS, the general coordination of cooperator activities as they affect the use of ATO facilities and services, and developing and maintaining a current listing of trade and other appropriate organizations in order to make such listings available to persons interested in exporting U.S. agricultural commodities. His activities are concentrated on increasing the effectiveness of agricultural export promotion efforts. The two offices, obviously, have to work very closely in accomplishing our overall objective of promoting agricultural exports and we believe they are doing so in a harmonious fashion.

COOPERATOR PROGRAM

Question: What is your assessment of the value of the cooperator program?

Answer: I would rate the value of the market development program very high. It commands the respect of U.S. farmers and trade as well as foreign business and government officials. The program has strongly assisted U.S. farmers in their efforts to gain new markets overseas and enlarge markets already established. Each year U.S. farmers and foreign interests have increased their contributions to the program to the point where they now finance two-thirds of the total program costs. I feel that the program is an outstanding example of Government and industry working together to maximize the effectiveness of the export effort.

Question: The working relationship with commodity cooperators seems to be productive in overseas posts.
How many cooperator arrangments now exist?

Answer: There are currently 55 project agreements with various cooperator associations.

Question: How much, if any, Foreign Agricultural Service funding supports their activity?

Answer: I will provide for the record a table showing this information.
(The information follows.)

FAS EXPENDITURES
U.S. AND THIRD PARTY COOPERATOR CONTRIBUTIONS
FISCAL YEAR 1981
($1,000)

Commodity and Cooperator	FY 1981				
	FAS Expenditures	Cooperator Contributions			Foreign Third Party
		Cash	Goods & Services	Total	
COTTON					
Cotton Council International	1,231	294	143	437	2,267
International Institute for Cotton	2,276	-0-	-0-	-0-	5,258 2/
TOTAL COTTON	3,507	294	143	437	7,525
DAIRY & POULTRY					
Poultry & Egg Institute of America	915	126	171	297	358
TOTAL DAIRY & POULTRY	915	126	171	297	358
OILSEEDS & PRODUCTS					
American Soybean Association	2,766	3,438	365	3,803	4,864
National Peanut Council	350	259	15	274	3,828
North Dakota Sunflower Council	1/	2	-0-	2 2/	-0-
National Cottonseed Products Assn.	11	15	-0-	15 2/	-0-
TOTAL OILSEEDS & PRODUCTS	3,127	3,714	380	4,094	8,692
FRUITS & VEGETABLES					
National Potato Promotion Board	72	18	57	75	-0-
California Raisin Advisory Board	388	501	102	603	1,255
Florida Department of Citrus	275	854	-0-	854	656
Northwest Horticultural Council	104	165	41	206	76
California Cling Peach Advisory Board	483	621	60	681	-0-
California Avocado Commission	172	304	-0-	304	-0-
Papaya Administrative Committee	39	51	-0-	51	-0-
North American Blueberry Council	1	-0-	-0-	-0-	-0-
California Table Grape Commission	51	69	-0-	69	-0-
Florida Nurserymen & Growers Assn., Inc.	22	11	33	44	-0-
Walnut Marketing Board	-0-	-0-	-0-	-0-	-0-
EIP's	1,287	1,777	-0-	1,777	509
TOTAL FRUITS AND VEGETABLES	2,894	4,371	293	4,664	2,496
GRAIN & FEED					
U.S. Wheat Associates, Inc.	3,916	2,530	680	3,210	3,513
Millers National Federation	17	8	45	53	-0-
National Dry Bean Council	55	53	22	75	24
Protein Grain Products International	39	100	39	139	-0-
Rice Council for Market Development	912	354	186	540	2,839
USA Dry Pea and Lentil Council, Inc.	101	56	85	141	9
U.S. Feed Grains Council	2,012	1,302	31	1,333	2,714
National Hay Association, Inc.	4	-0-	48	48	-0-
TOTAL GRAIN & FEED	7,058	4,403	1,136	5,539	9,099
LIVESTOCK & LIVESTOCK PRODUCTS					
National Renderers Association	763	463	144	607	125
Santa Gertrudis Breeders International	3	11	1	12	-0-
American Brahman Breeders Association	9	12	11	23	-0-
American Hereford Association	9	50	-0-	50	-0-
American Polled Hereford Association	6	8	7	15	-0-
American Angus Association	5	33	8	41	-0-
Tanners Council of America	195	785	155	940	-0-
International Brangus Breeders Assn.	4	7	1	8	-0-
Mohair Council of America	3	45	1	46	-0-
American International Charolais Assn.	7	33	34	67	-0-
Holstein-Friesian Association of America	132	258	7	265	84
EMBA Mink Breeders Association	204	964	-0-	964	-0-
American Quarter Horse Association	17	32	12	44	-0-
Brown Swiss Cattle Breeders Association	12	8	-0-	8	-0-
National Association of Animal Breeders	26	24	58	82	-0-
U.S. Meat Export Federation	699	382	230	612	952
National Association of Swine Records	41	21	22	43	-0-
Beefmaster Breeders Universal	3	5	2	7	-0-
Appalossa Horse Club, Inc.	-0-	17	10	27	-0-
TOTAL LIVESTOCK & LIVESTOCK PRODUCTS	2,138	3,158	703	3,861	1,161
TOBACCO & SEEDS					
Tobacco Associates	-0-	221	142	363	-0-
American Seed Trade Association	108	113	69	182	-0-
TOTAL TOBACCO & SEEDS	108	334	211	545	-0-
STATE GROUPS					
EUSAFEC	54	17	92	109	-0-
MIATCO	70	80	66	146	-0-
SUSTA	96	109	167	276	-0-
WUSATA	62	87	208	295	-0-
NASDA	100	-0-	-0-	-0-	-0-
TOTAL STATE GROUPS	382	293	533	826	-0-
FOREST PRODUCTS					
National Forest Products Assn.	66	622	-0-	622	-0-
TOTAL FOREST PRODUCTS	66	622	-0-	622	-0-
TOTAL COOPERATOR PROJECTS	20,195	17,315	3,570	20,885	29,831
FAS Sponsored Promotions	971	58	-0-	58	-0-
FAS/ERS Research, Evaluation & Planning	43	-0-	-0-	-0-	-0-
Total	1,014	58	-0-	58	-0-
TOTAL FAS PROJECTS	1,014	58	-0-	58	-0-
GRAND TOTAL COOPERATOR AND FAS PROJECTS	21,209	17,373	3,570	20,943	29,831
Agricultural Trade Offices	1,729	-0-	-0-	-0-	-0-

1/ Less than $500
2/ Estimated

COMMODITY CREDIT CORPORATION CREDIT PROGRAM

Question: Last year in our hearings, you indicated that you believe the Commodity Credit Corporation is very helpful to the health of agricultural exporters.

What is your current assessment of the value of Commodity Credit Corporation credit programs?

Answer: The Commodity Credit Corporation's Export Credit Guarantee Program continues to be a very valuable tool for commercial agricultural export market development. In fiscal year 1981 this program provided financing coverage for more than $1.8 billion in agricultural export sales. In fiscal 1982 the demand for financing guarantees remains strong and the program continues to support export market expansion. The Public Law 480 programs continue to provide concessional sales, under Title I to markets that would otherwise not receive imports of United States agricultural commodities. This program provides food assistance to needy countries, while creating a long term market development basis for continued expansion of export markets through initiation of business relationship, and introduction of products from the United States.

Question: What impact will those programs have on exports in fiscal year 1983?

Answer: The commercial export financing aspects of the Export Credit Guarantee Program and the concessional financing provided by Public Law 480 will continue to be important sources of export market development in fiscal year 1983. The export promotion provided by these programs will continue to reduce domestic commodity inventories, and help strengthen commodity prices and farm income.

LANDSAT DATA

Question: I understand that beginning in 1983, the cost of Landsat data will be borne by the end users through a reimbursement to the Department of Commerce.

Is it correct that the significant increase in your request for Landsat data--an increase of $7,014 million--is due to this new payment procedure?

Answer: Landsat operations, maintenance, and data costs are allocated by volume of usage. FAS analyzes approximately 15,000 satellite scenes each year for global crop condition assessment. At the proposed NOAA cost per scene, the FAS share will amount to $7 million.

Question: This activity supports the foreign crop assessment program. Is it the main ingredient in our worldwide agricultural intelligence and reporting service? Are there other components of the intelligence program?

Answer: Satellite data is one of several ingredients of our worldwide intelligence and reporting service. Data on foreign crops, markets and economies are collected on a regular basis by FAS Attaches stationed overseas. Additionally, our close work with private industry cooperators and the commodity trade provide another source of worldwide data. The unique aspect of satellite data is that data can be acquired over those countries where we are denied travel, or where in-country resources limit the geographic area covered during a given crop year.

Question: What is your assessment of the services and data you are receiving, compared with the amount you are being asked to pay? Is it worth it?

Answer: FAS requirements for data availability is 48 hours after collection. This requirement and our data volume requirements are not currently being met. Landsat-D and the communication satellite return of Landsat data show promise of meeting our needs. Until all requirements specified above are met FAS intends to reimburse Commerce on a reduced payment schedule based upon quality of service.

Numerous cost benefit studies have been performed which place the value ratio in a range of 2:1 to 4:1. There is no common agreement in Government as to the validity of these studies. FAS has realized numerous intangible benefits from this data source since 1979, e.g. USSR shortfall, drought in Mexico and Australia, flooding in China and expansion of growing areas in South America. We believe this source of data shows a potential in the coming decades to defray all investment costs during its infancy.

PUBLIC LAW 480

Question: You are requesting a slight increase in funding for the P.L. 480 program in fiscal year 1983.

How was it determined that credit sales should be increased $82.8 million, while dispositions abroad are reduced $54.8 million?

Answer: The figures cited in the question reflect a transfer of $30.0 million in fiscal year 1982 funding from the Title I program to the Title II program to fund a donations program in Poland sponsored by Catholic Relief Services and CARE. When compared to the funding enacted in the fiscal year 1982 appropriations act prior to this administratively determined transfer, the fiscal year 1983 request for the Title I and III program represents an increase of $52.8 million, while the Title II request is a decrease of $24.8 million. Thus, the changes between fiscal years 1982 and 1983 funding levels are not as pronounced as your question suggests.

The requested fiscal year 1983 program level for Title I and III of $859.0 million is consistent with levels of the past few years--$881.3 million in fiscal year 1980 and $851.3 million in fiscal year 1981. Also, the requested fiscal year 1983 budget will allow programing of approximately 3.3 million metric tons, which is consistent with the 3.4 million metric tons being programed this year. More important, the modest increase in the fiscal year 1983 budget level for Title I and III reflects this Administration's strong support for the market development, foreign policy, and economic development objectives of the program.

The reduction of $24.8 million in the Title II program reflects a number of factors. First, emergency food needs are greatly reduced this year from the past few years, and the fiscal year 1983 Title II budget request includes a smaller emergency reserve component. If food emergencies should arise next year, the Administration has several means to meet those needs, including a supplemental appropriation request, a transfer of funds from Title I, or tapping up to 300,000 metric tons of the Food Security Wheat Reserve. A second factor considered in developing the Title II budget request was the Kasten amendment in the 1981 Agriculture and Food Act. That provision allows Title II commodities to be procured from CCC stocks at reduced prices, thereby allowing the same volume of commodities to be programed at a reduced budget level. Finally, the Administration's overall effort to reduce Federal expenditures is reflected in this budget request.

Question: What is your assessment of this mix?

Answer: The Department of Agriculture believes that the Public Law 480 budget request reflects an appropriate mix for the two programs. We strongly support the market development objectives of the Title I program and expect to enhance further this role for the program. Also, we recognize that in this era of very tight program budgets more commodities can be programed through the Title I program than through Title II for the same budget level. This is due in part to the fact that while 38 percent of Title II funds are used for ocean transportation expenditures, only 11 percent of Title I funds are used to pay for ocean freight differential costs.

Question: What is your assessment of the impact the P.L. 480 program has on United States agricultural exports?

Answer: The Public Law 480 program has unquestionably contributed to the growth of markets for U.S. agricultural commodities overseas. Former Public Law 480 recipients such as Korea, Taiwan, Spain, and Portugal demonstrate the market development contributions of the program. As long as export market development remains one of the primary legislative objectives of Public Law 480, the program is likely to continue to have this positive role.

In the short-term, Public Law 480 can have some impact on U.S. agricultural exports. This is particularly true for those commodities such as rice, wheat flour, nonfat dry milk, etc., which have a significant percentage of their exports shipped through Public Law 480. Of course, any short-term impact of the program on exports is influenced by the size of the program in any given year and that in turn is dependent on budgetary considerations.

Question: You are requesting an appropriation language change to permit operation of the Title II program below the minimum tonnage when funds provided are insufficient to finance the tonnage requirement of 1.7 million metric tons of agricultural commodities for distribution under the donations program.

Does not this request require legislative action by the authorizing committees of Congress?

Answer: It is our understanding that in the very near future the Office of Management and Budget will be submitting to the Congress a budget language amendment which will withdraw this proposed language regarding the Title II program.

Question: Would you provide for the record a listing of countries receiving exports under P.L. 480 programs in fiscal year 1981, and those anticipated during fiscal year 1982?

Answer: We will supply tables from AID's Congressional Presentation which provides programing data for those two years as well as projections for fiscal year 1983.

(The information follows:)

PL 480 TITLE I SALES PROGRAM (Including Title III)
($ Millions)

Country	FY 1981 Final Sales Registered		FY 1982 Estimated		FY 1983 Proposed							
	TITLE I	Of Which TITLE III	TITLE I	Of Which TITLE III	TITLE I	Of Which TITLE III	Wheat/ Wheat Flour	Rice	Other Grains	Vegoil	Total Food	Non-Food
$ 730 OR LESS												
Bangladesh	50.0	(50.0)	50.5	(50.5)	60.0	(55.0)	29.4	-	-	20.4	49.8	10.2
Bolivia	-	-	-	-	18.6	(18.6)	18.6	-	-	-	18.6	-
Egypt	275.0	(14.9)	275.0	(25.0)	250.0	(25.0)	250.0	-	-	-	250.0	-
El Salvador	17.2	-	22.4	-	30.0	-	21.8	-	-	8.2	30.0	-
Ghana	12.7	-	7.0	-	7.0	-	2.2	4.8	-	-	7.0	-
Guinea	7.0	-	5.0	-	2.5	-	-	2.5	-	-	2.5	-
Haiti	9.0	-	9.0	-	11.0	-	6.6	4.4	-	-	11.0	-
Honduras	5.8	-	5.0	(5.0)	5.0	(5.0)	5.0	-	-	-	5.0	-
Indonesia	50.0	-	17.5	-	20.0	-	10.0	10.0	-	-	20.0	-
Kenya	16.0	-	15.0	-	15.0	-	4.0	7.0	4.0	-	15.0	-
Liberia	17.6	-	10.0	-	11.0	-	-	11.0	-	-	11.0	-
Madagascar	5.0	-	-	-	-	-	-	-	-	-	-	-
Malawi	2.4	-	-	-	-	-	-	-	-	-	-	-
Pakistan	50.0	-	50.0	-	50.0	-	-	-	-	50.0	50.0	-
Senegal	7.0	(7.0)	7.0	(7.0)	8.0	(8.0)	1.0	7.0	-	-	8.0	-
Sierra Leone	2.7	-	-	-	3.0	-	-	3.0	-	-	3.0	-
Somalia	15.0	-	14.5	-	15.0	(15.0)	4.3	5.3	-	5.4	15.0	-
Sri Lanka	18.2	-	17.6	-	25.0	-	25.0	-	-	-	25.0	-
Sudan	30.0	(20.0)	25.0	(20.0)	30.0	(20.0)	30.0	-	-	-	30.0	-
Tanzania	7.5	-	5.0	-	5.0	-	2.5	2.5	-	-	5.0	-
Zaire	11.0	-	10.0	-	10.0	-	7.9	-	-	-	7.9	2.1
Zambia	10.0	-	7.0	-	7.0	-	3.0	2.2	-	1.8	7.0	-
SUBTOTAL	619.1	(91.9)	552.5	(107.5)	583.1	(146.6)	421.3	59.7	4.0	85.8	570.8	12.3
$ 731 OR MORE												
Costa Rica	-	-	18.0	-	10.0	-	3.8	-	3.9	2.3	10.0	-
Dominican Republic	15.0	-	17.0	-	18.0	-	-	-	12.6	5.4	18.0	-
Jamaica	15.2	-	17.5	-	20.0	-	7.1	6.6	5.1	1.2	20.0	-
Korea	27.0	-	-	-	-	-	-	-	-	-	-	-
Mauritius	3.5	-	3.5	-	3.5	-	.9	2.6	-	-	3.5	-
Morocco	25.0	-	30.0	-	25.0	-	25.0	-	-	-	25.0	-
Peru	20.0	-	17.0	-	20.0	-	-	20.0	-	-	20.0	-
Poland	47.6	-	-	-	-	-	-	-	-	-	-	-
Portugal	11.0	-	-	-	-	-	-	-	-	-	-	-
Tunisia	10.0	-	10.0	-	10.0	-	10.0	-	-	-	10.0	-
SUBTOTAL	174.3	(-)	113.0	-	106.5	(-)	46.8	29.2	21.6	8.9	106.5	-
Total Allocated	793.4	(91.9)	665.5	(107.5)	689.6	(146.6)	468.1	88.9	25.6	94.7	677.3	12.3
Reserve	-	-	28.0	-	105.6	-	46.2	32.7	12.0	14.7	105.6	-
GRAND TOTAL	793.4	(91.9)	693.5	(107.5)	795.2	(146.6)	514.3	121.6	37.6	109.4	782.9	12.3

Country	FY 1981 Final Sales Registered TITLE I	FY 1981 Final Sales Registered Of Which TITLE III	FY 1982 Estimated TITLE I	FY 1982 Estimated Of Which TITLE III	FY 1983 Proposed TITLE I	FY 1983 Proposed Of Which TITLE III	FY 1983 Proposed Wheat/ Wheat Flour	FY 1983 Proposed Rice	FY 1983 Proposed Other Grains	FY 1983 Proposed Vegoil	FY 1983 Proposed Total Food	FY 1983 Proposed Non-Food
$ 730 OR LESS												
Bangladesh	239.6	(239.6)	180.0	(180.0)	188.8	(186.2)	148.5	-	-	34.9	183.4	5.4
Bolivia	-	-	-	-	94.0	(94.0)	94.0	-	-	-	94.0	-
Egypt	1500.0	(92.1)	1500.0	(142.0)	1221.6	(127.5)	1221.6	-	-	-	1221.6	-
El Salvador	77.0	-	117.0	-	124.1	-	110.1	-	-	14.0	124.1	-
Ghana	37.4	-	28.0	-	21.8	-	11.0	10.8	-	-	21.8	-
Guinea	18.4	-	17.0	-	5.6	-	-	5.6	-	-	5.6	-
Haiti	37.9	-	41.0	-	43.2	-	33.3	9.9	-	-	43.2	-
Honduras	32.5	-	28.0	(28.0)	25.3	(25.3)	25.3	-	-	-	25.3	-
Indonesia	126.2	-	99.0	-	73.0	-	50.5	22.5	-	-	73.0	-
Kenya	111.3	-	69.0	-	61.8	-	20.0	15.8	26.0	-	61.8	-
Liberia	35.6	-	27.0	-	24.8	-	-	24.8	-	-	24.8	-
Madagascar	12.9	-	-	-	-	-	-	-	-	-	-	-
Malawi	13.2	-	-	-	-	-	-	-	-	-	-	-
Pakistan	96.4	-	93.0	-	85.6	-	-	-	-	85.6	85.6	-
Senegal	13.0	(13.0)	19.0	(19.0)	20.8	(20.8)	5.0	15.8	-	-	20.8	-
Sierra Leone	8.5	-	-	-	6.8	-	-	6.8	-	-	6.8	-
Somalia	51.3	-	46.0	-	39.0	(39.0)	20.0	12.0	-	7.0	39.0	-
Sri Lanka	111.0	-	100.0	-	126.3	-	126.3	-	-	-	126.3	-
Sudan	161.6	(108.3)	123.0	(72.7)	144.4	(126.7)	144.4	-	-	-	144.4	-
Tanzania	52.6	-	26.0	-	18.2	-	12.6	5.6	-	-	18.2	-
Zaire	61.8	-	57.0	-	41.0	-	39.9	-	-	-	39.9	1.1
Zambia	57.2	-	30.0	-	23.0	-	15.0	5.0	-	3.0	23.0	-
SUBTOTAL	2855.4	(453.0)	2600.0	(441.7)	2389.1	(619.5)	2077.5	134.6	26.0	144.5	2382.6	6.5
$ 731 OR MORE												
Costa Rica	-	-	107.0	-	48.0	-	19.0	-	25.0	4.0	48.0	-
Dominican Republic	57.5	-	110.0	-	91.0	-	-	-	81.8	9.2	91.0	-
Jamaica	64.1	-	71.0	-	81.3	-	31.3	14.9	33.0	2.1	81.3	-
Korea	165.3	-	-	-	-	-	-	-	-	-	-	-
Mauritius	12.3	-	12.0	-	9.9	-	4.0	5.9	-	-	9.9	-
Morocco	171.7	-	170.0	-	126.3	-	126.3	-	-	-	126.3	-
Peru	37.4	-	46.0	-	45.0	-	-	45.0	-	-	45.0	-
Poland	373.2	-	-	-	-	-	-	-	-	-	-	-
Portugal	69.0	-	-	-	-	-	-	-	-	-	-	-
Tunisia	62.8	-	57.0	-	50.5	-	50.5	-	-	-	50.5	-
SUBTOTAL	1013.3	-	573.0	-	452.0	-	231.1	65.8	139.8	15.3	452.0	-
Total Allocated	3868.7	(453.0)	3173.0	(441.7)	2841.1	(619.5)	2308.6	200.4	165.8	159.8	2834.6	6.5
Reserve	-	-	100.0	-	408.4	-	233.4	73.6	78.2	23.2	408.4	-
GRAND TOTAL	3868.7	(453.0)	3273.0	(441.7)	3249.5	(619.5)	2542.0	274.0	244.0	183.0	3243.0	6.5

FY 1983
PL 480 CONGRESSIONAL PRESENTATION
TITLE II
($ 000)

	FY 1981 Actual Program Levels				FY 1982 Estimated Program Levels				FY 1983 Proposed Program Levels			
	Total	Volags	WFP	G/G	Total	Volags	WFP	G/G	Total	Volags	WFP	G/G
Subtotal - Regions	610,693	401,909	151,004	57,780	437,774	330,968	93,250	13,556	348,406	270,611	75,000	2,795
(of which emergency)	(124,875)	(14,427)	(59,097)	(51,351)	(47,744)	(22,803)	(14,429)	(10,512)				
Near East	56,243	44,727	11,516	-	50,045	35,524	14,521	-	40,381	24,557	15,824	-
(of which emergency)	(1,820)	(1,820)	(-)	(-)	(-)	(-)	(-)	(-)				
Latin America	90,704	72,205	12,661	5,838	65,246	52,238	8,924	4,084	52,583	44,429	5,359	2,795
(of which emergency)	(7,088)	(4,402)	(592)	(2,094)	(4,123)	(-)	(1,605)	(2,518)				
Africa	174,733	73,170	49,621	51,942	89,476	53,313	26,812	9,351	74,708	46,342	28,366	-
(of which emergency)	(73,540)	(8,205)	(16,078)	(49,257)	(8,511)	(447)	(191)	(7,873)				
Asia	289,013	211,807	77,206	-	210,651	167,537	42,993	121	180,734	155,283	25,451	-
(of which emergency)	(42,427)	(-)	(42,427)	(-)	(12,754)	(-)	(12,633)	(121)				
Europe	-	-	-	-	22,356	22,356	-	-	-	-	-	-
(of which emergency)					(22,356)	(22,356)						
Emergency Reserve	-	-	-	-	69,051	-	-	-	78,655	-	-	-
Stock Adjustment	-73,717	-73,717	-	-	-50,757	-50,757	-	-	-27,061	-27,061	-	-
Ocean Transport	231,300	-	-	-	268,129	-	-	-	250,000	-	-	-
GRAND TOTAL	768,276				724,197				650,000	-	-	-

REGION/ COUNTRY	FY 1981 Actual Program Levels				FY 1982 Estimated Program Levels				FY 1983 Proposed Program Levels			
	Total	Volags	WFP	G/G	Total	Volags	WFP	G/G	Total	Volags	WFP	G/G
NEAR EAST - Total	56,243	44,727	11,516	-	50,045	35,524	14,521	-	40,381	24,557	15,824	-
Egypt	28,949	22,524	6,425		26,711	17,719	8,992		21,344	9,945	11,399	
Gaza	1,511	1,511			1,214	1,214			1,227	1,227		
Jordan	614	527	87		676	528	148		256	150	106	
Jordan (W.B)	2,200	2,200			1,994	1,994			896	896		
Morocco	16,144	14,782	1,362		16,143	11,552	4,591		14,213	10,510	3,703	
Syria	1,929		1,929									
Tunisia	4,529	3,183	1,346		2,633	2,517	116		1,907	1,829	78	
Turkey	45		45		48		48		40		40	
Yemen Arab Rep.	322		322		626		626		498		498	
LATIN AMERICA - Total	90,704	72,205	12,661	5,838	65,246	52,238	8,924	4,084	52,583	44,429	5,359	2,795
Barbados	55		55		40		40					
Bolivia	9,534	8,746	349	439	7,548	7,216	332		7,525	7,177	348	
Brazil	555		555		191		191		200		200	
Chile	7,698	7,698			2,766	2,766						
Costa Rica	1,814	1,615	199		309		309					
Dominican Republic	4,356	4,356			3,522	3,522			2,783	2,783		
Ecuador	2,289	1,304	985		1,922	1,432	490		1,888	1,547	341	
El Salvador	9,077	4,893	2,090	2,094	7,108	2,755	1,835	2,518	4,921	1,838	360	2,723
Guatemala	7,554	7,210	344		6,004	5,228	776		5,009	4,087	922	
Guyana	27			27	76			76	72			72
Haiti	15,876	13,799	2,077		10,516	9,197	1,319		8,725	7,905	820	
Honduras	4,646	3,402	1,244		4,242	3,445	797		4,064	3,491	573	
Jamaica	8		8		27		27		14		14	
Nicaragua	1,240	634	606		643		643					
Panama	1,850	1,850			2,048	1,959	89		1,344	1,208	136	
Paraguay	652		652		152		152					
Peru	23,473	16,698	3,497	3,278	18,132	14,718	1,924	1,490	16,038	14,393	1,645	

REGION/ COUNTRY	FY 1981 Actual Program Levels				FY 1982 Estimated Program Levels				FY 1983 Proposed Program Levels			
	Total	Volags	WFP	G/G	Total	Volags	WFP	G/G	Total	Volags	WFP	G/G
AFRICA - Total	174,733	73,170	49,621	51,942	89,476	53,313	26,812	9,351	74,708	46,342	28,366	
Angola	3,830		862	2,968	395		395		362		362	
Benin	1,839	719	1,120		769	719	50		517	443	74	
Botswana	5,361		5,361		1,150		1,150		1,130		1,130	
Burundi	2,845	1,798	1,047		2,416	1,726	690		2,430	1,760	670	
Cameroon	2,402	949	515	938	1,505	898	607		1,016	568	448	
Cape Verde	3,031		346	2,685	1,477		778	699	778		778	
C.A.R.	382		382		170		170					
Chad					311		311		216		216	
Comoro Is.	430		430		312		312		352		352	
Congo	277		277		281		281		258		258	
Djibouti	1,132	1,132			2,125	2,125			2,599	2,599		
Eq. Guinea					195		195		307		307	
Ethiopia	4,957	3,394	1,563		3,232	3,232			1,867	1,867		
Gambia	1,316	1,097	219		1,258	908	350		872	626	246	
Ghana	6,857	5,956	901		5,850	4,892	958		6,254	5,004	1,250	
Guinea	1,069		1,069		225		225		270		270	
Guinea Bissau	5,482		806	4,676	416		416		396		396	
Ivory Coast	10		10		12		12					
Kenya	10,395	7,502	1,753	1,140	4,282	4,282			2,985	2,985		
Lesotho	13,149	5,919	7,230		7,516	5,664	1,852		8,811	4,249	4,562	
Liberia	144		144		400		400		430		430	
Madagascar	4,436	1,716	37	2,683	1,367	1,342	25		1,031	805	226	
Malawi	738		738		1,153		1,153		577		577	
Mauritania	6,164	2,768	131	3,265	4,219	2,338	1,881		4,183	1,532	2,651	
Mauritius	830		830		717		717		683		683	
Mozambique	3,927		523	3,404	494		494		600		600	
Niger	1,397		1,397		2,089		141	1,948	154		154	
Rwanda	3,813	3,061	752		3,117	2,918	199		3,283	2,933	350	
Sao Tome	168		168		66		66		61		61	
Senegal	11,620	7,399	1,054	3,167	6,406	5,950	456		8,862	8,139	723	
Seychelles	503	503			432	432			376	376		
Sierra Leone	1,927	1,927			2,044	2,044			1,344	1,344		
Somalia	29,893		10,246	19,647	11,094		5,169	5,925	3,714		3,714	
Sudan	4,937	1,719	3,218		5,209	2,032	3,177		3,388	1,272	2,116	
Swaziland	570		570		1,059		1,059		683		683	
Tanzania	7,291	2,711	1,895	2,685	3,061	2,363	698		2,515	1,688	827	
Togo	3,192	2,546	646		2,781	1,621	1,160		1,603	759	844	
Uganda	6,970	4,680	2,290		447	447						
Upper Volta	15,137	12,170	1,091	1,876	9,424	7,380	1,265	779	7,659	5,251	2,408	
Zaire	3,504	3,504							2,142	2,142		
Zambia	2,808			2,808								

REGION/ COUNTRY	FY 1981 Actual Program Levels				FY 1982 Estimated Program Levels				FY 1983 Proposed Program Levels			
	Total	Volags	WFP	G/G	Total	Volags	WFP	G/G	Total	Volags	WFP	G/G
ASIA - Total	289,013	211,807	77,206	-	210,651	167,537	42,993	121	180,734	155,283	25,451	-
Bangladesh	21,636	20,423	1,213		27,168	22,037	5,131		24,611	20,552	4,059	
Bhutan	332		332		859		859		956		956	
China, P.R.	1,702		1,702		121			121				
India	170,558	155,962	14,596		136,842	120,482	16,360		123,433	111,445	11,988	
Indonesia	16,157	8,457	7,700		5,894	4,240	1,654		7,269	4,792	2,477	
Kampuchea	14,121		14,121		1,614		1,614					
Nepal	4,280		4,280		1,585		1,585		979		979	
Pakistan	28,773		28,773		14,219		14,219		3,381		3,381	
Philippines	24,042	19,553	4,489		16,198	14,627	1,571		14,293	12,682	1,611	
Sri Lanka	7,412	7,412			6,151	6,151			5,812	5,812		
EUROPE - Total	-	-	-	-	22,356	22,356	-	-	-	-	-	
Poland					22,356	22,356						

FY 1983
PL 480 CONGRESSIONAL PRESENTATION
TITLE II
(METRIC TONS)

Region/Country	FY 1981 Actual Program Levels				FY 1982 Estimated Program Levels				FY 1983 Proposed Program Levels			
	Total	Volags	WFP	G/G	Totals	Volags	WFP	G/G	Total	Volags	WFP	G/G
Subtotal Regions	1909952	1150720	520898	238334	1442909	1030539	357102	55268	1137462	865022	264937	7503
(of which emergency)	(493615)	(41916)	(237346)	(214353)	(171470)	(60364)	(70906)	(40200)				
NEAR EAST	158596	118850	39746	-	153179	98001	55178	-	129755	71030	58725	-
(of which emergency)	(5914)	(5914)	(-)	(-)	(-)	(-)	(-)	(-)				
LATIN AMERICA	232620	180281	38605	13734	184603	143212	30023	11368	154451	128390	18558	7503
(of which emergency)	(20576)	(12967)	(2856)	(4753)	(13296)	(-)	(5996)	(7300)				
AFRICA	573834	177151	172083	224600	281855	141126	97129	43600	246068	147996	98072	-
(of which emergency	(300982)	(23035)	(68347)	(209600)	(35110)	(2000)	(510)	(32600)				
ASIA	944902	674438	270464	-	764908	589836	174772	300	607188	517606	89582	-
(of which emergency)	(166143)	(-)	(166143)	(-)	(64700)	(-)	(64400)	(300)				
EUROPE	-	-	-	-	58364	58364	-	-				
(of which emergency)	(-)	(-)	(-)	(-)	(58364)	(58364)	(-)	(-)				
Emergency Reserve					384916				379215			
Stock Adjustment	-252489	-252489			-199494	-199494			-86502	-86502		
GRAND TOTAL	1657463				1628331				1430175			

(Metric Tons/Metric Ton Grain Equivalent)

Region/Country	FY 1981 Total	FY 1981 Volags	FY 1981 WFP	FY 1981 G/G	FY 1982 Totals	FY 1982 Volags	FY 1982 WFP	FY 1982 G/G	FY 1983 Total	FY 1983 Volags	FY 1983 WFP	FY 1983 G/G
Subtotal Regions	2064379	1264187	557200	242992	1595783	1144932	392933	57918	1308334	984852	313727	9755
Emergency Reserve					387594				379365			
Stock Adjustment	-261282	-261282			-213377	-213377			-98485	-98485		
GRAND TOTAL	1803097				1770000				1589214			

Region/Country	FY 1981 Actual Program Levels				FY 1982 Estimated Program Levels				FY 1983 Proposed Program Levels			
	Total	Volags	WFP	G/G	Total.	Volags	WFP	G/G	Total	Volags	WFP	G/G
NEAR EAST Total	158,596	118,850	39,746		153,179	98,001	55,178		129,755	71,030	58,725	-
Egypt	74,765	53,644	21,121		73,025	45,675	27,350		69,759	31,344	38,415	
Gaza	5,004	5,004			4,099	4,099			4,012	4,012		
Jordan	1,503	1,378	125		1,618	1,368	250		907	657	250	
Jordan(W.B.)	5,998	5,998			5,656	5,656			2,830	2,830		
Morocco	51,844	43,844	8,000		59,136	34,136	25,000		44,887	26,887	18,000	
Syria	7,700		7,700									
Tunisia	10,602	8,982	1,620		7,245	7,067	178		5,650	5,300	350	
Turkey	180		180		200		200		150		150	
Yemen Arab Rep.	1,000		1,000		2,200		2,200		1,560		1,560	
LATIN AMERICA	232,620	180,281	38,605	13,734	184,603	143,212	30,023	11,368	154,451	128,390	18,558	7,503
Barbados	185		185		125		125					
Bolivia	24,706	22,954	653	1,099	20,222	19,584	638		22,418	21,686	732	
Brazil	1,607		1,607		570		570		858		858	
Chile	19,639	19,639			7,919	7,919						
Costa Rica	3,835	3,190	645		932		932					
Dominican Rep.	10,142	10,142			9,926	9,926			8,588	8,588		
Ecuador	6,078	3,122	2,956		4,991	3,494	1,497		4,687	3,766	921	
El Salvador	22,635	10,861	7,021	4,753	21,898	6,510	8,088	7,300	15,169	6,238	1,630	7,301
Guatemala	16,647	15,471	1,176		16,762	13,886	2,876		14,824	11,175	3,649	
Guyana	150			150	200			200	202			202
Haiti	45,037	38,735	6,302		31,388	26,808	4,580		27,760	24,920	2,840	
Honduras	12,637	7,600	5,037		11,179	8,287	2,892		11,889	9,189	2,700	
Jamaica	18		18		65		65		44		44	
Nicaragua	2,825	1,285	1,540		1,802		1,802					
Panama	4,115	4,115			4,875	4,518	357		4,923	4,405	518	
Paraguay	1,737		1,737		525		525					
Peru	60,627	43,167	9,728	7,732	51,224	42,280	5,076	3,868	43,089	38,423	4,666	

Region/Country	FY 1981 Actual Program Levels				FY 1982 Estimated Program Levels				FY 1983 Proposed Program Levels			
	Total	Volags	WFP	G/G	Totals	Volags	WFP	G/G	Total	Volags	WFP	G/G
ASIA -Total	944,902	674,438	270,464		764,908	589,836	174,772	300	607,188	517,606	89,582	-
Bangladesh	123,250	120,000	3,250		143,451	120,000	23,451		116,978	99,919	17,059	
Bhutan	820		820		2,548		2,548		3,137		3,137	
China, P.R.	10,000		10,000		300			300				
India	505,959	457,808	48,151		445,258	390,283	54,975		381,713	342,269	39,444	
Indonesia	45,216	26,772	18,444		26,981	20,507	6,474		29,924	20,507	9,417	
Kampuchea	28,948		28,948		4,400		4,400					
Nepal	13,055		13,055		4,600		4,600		2,843		2,843	
Pakistan	135,737		135,737		74,042		74,042		13,714		13,714	
Philippines	63,556	51,497	12,059		46,903	42,621	4,282		40,846	36,878	3,968	
Sri Lanka	18,361	18,361			16,425	16,425			18,033	18,033		
EUROPE Total	--	--	--	--	58,364	58,364	--	--	--	--	--	-
Poland					58,364	58,364						

Region/Country	FY 1981 Actual Program Levels				FY 1982 Estimated Program Levels				FY 1983 Proposed Program Levels			
	Total	Volags	WFP	G/G	Totals	Volags	WFP	G/G	Total	Volags	WFP	G/G
AFRICA Total	573,834	177,151	172,083	[illegible],600	281,855	141,126	97,129	43,600	246,068	147,996	98,072	-
Angola	12,357		4,357	8,000	932		932		1,545		1,545	
Benin	4,870	1,590	3,280		1,888	1,688	200		1,986	1,687	299	
Botswana	11,550		11,550		2,400		2,400		2,112		2,112	
Burundi	8,097	4,852	3,245		6,890	4,716	2,174		8,994	6,936	2,058	
Cameroon	9,475	2,100	1,375	6,000	3,923	2,100	1,823		3,470	2,160	1,310	
Cape Verde	16,182		1,182	15,000	7,812		2,812	5,000	3,219		3,219	
C.A.R.	1,238		1,238		569		569					
Chad					1,015		1,015		744		744	
Comoro Is.	930		930		950		950		1,371		1,371	
Congo	870		870		864		864		811		811	
Djibouti	2,229	2,229			5,662	5,662			6,570	6,570		
Eq. Guinea					535		535		805		805	
Ethiopia	17,380	7,380	10,000		7,362	7,362			6,642	6,642		
Gambia	2,934	2,064	870		3,054	1,884	1,170		2,637	1,722	915	
Ghana	17,371	14,611	2,760		15,810	12,453	3,357		16,675	12,501	4,174	
Guinea	2,240		2,240		600		600		600		600	
Guinea Bissau	15,151		1,651	13,500	1,276		1,276		1,096		1,096	
Ivory Coast	25		25		31		31					
Kenya	33,673	16,673	10,300	6,700	10,454	10,454			9,783	9,783		
Lesotho	38,511	15,711	22,800		22,140	15,192	6,948		29,230	14,847	14,383	
Liberia	355		355		1,209		1,209		1,317		1,317	
Madagascar	8,724	3,255	69	5,400	3,277	3,248	29		3,469	3,007	462	
Malawi	2,283		2,283		4,475		4,475		2,355		2,355	
Mauritania	27,339	6,946	393	20,000	15,256	6,064	9,192		17,535	5,342	12,193	
Mauritius	2,465		2,465		2,000		2,000		2,150		2,150	
Mozambique	21,170		1,170	20,000	1,153		1,153		1,359		1,359	
Niger	4,902		4,902		15,403		403	15,000	688		688	
Rwanda	8,485	6,994	1,491		7,906	7,457	449		9,468	8,796	672	
Sao Tome	470		470		221		221		225		225	
Senegal	36,996	21,925	5,071	10,000	23,202	20,102	3,100		27,461	22,839	4,622	
Seychelles	916	916			957	957			1,017	1,017		
Sierra Leone	4,232	4,232			4,892	4,892			4,892	4,892		
Somalia	108,757		32,257	76,500	36,814		19,214	17,600	12,803		12,803	
Sudan	15,010	3,780	11,230		16,445	4,680	11,765		11,923	4,547	7,376	
Swaziland	1,265		1,265		2,918		2,918		1,963		1,963	
Tanzania	31,432	6,272	10,160	15,000	10,091	5,718	4,373		10,673	6,107	4,566	
Togo	7,900	5,700	2,200		9,073	3,786	5,287		5,576	2,550	3,026	
Uganda	27,000	15,000	12,000		2,000	2,000						
Upper Volta	44,840	27,211	5,629	12,000	30,396	20,711	3,685	6,000	25,260	18,407	6,853	
Zaire	7,710	7,710							7,644	7,644		
Zambia	16,500			16,500								

Question: Could the P.L. 480 program be changed in any way to promote additional agricultural exports? Is it simply a matter of funds provided by Congress?

Answer: The volume of Public Law 480 exports is not determined exclusively by the level of funding provided, but clearly funding does play a predominant role in this regard. With respect to the funding question, the Department in the past has proposed several recommendations for greater flexibility for program managers in determining the level of programing and therefore exports in any given year.

For example, one proposal would allow the program level to be administratively increased and additional exports to be financed through CCC borrowing authority in very specific circumstances such as when estimated exports for the year drop below a specified level due to higher commodity prices. This might also be authorized for use at a time such as the present when domestic production and stocks are at unprecedented levels and additional Public Law 480 exports would be helpful for the farm community.

Public Law 480 exports can also be increased through other changes in the program's operations. For example, the Department is presently reviewing its ocean transportation approval procedures to see if additional savings could not be made with greater efficiency in shipping. Another approach is the recent Kasten amendment to the 1981 Agriculture and Food Act which allows Public Law 480 commodities to be procured from CCC stocks at reduced prices.

The Department is continuing to review Public Law 480 funding and program operations in order to achieve as high a level of exports as possible.

Question: Please explain and detail funding sources available to the P.L. 480 programs other than direct appropriations.

Answer: There are two sources of funding for Public Law 480 programs besides direct appropriations. These are receipts from prior year programs used in the Title I and III program and temporary Commodity Credit Corporation borrowing authority available for use in the Title II program.

Receipts used in the Title I and III program fall into two categories. The first of these are proceeds from sales of foreign currencies and development loan repayments. In the early years of Public Law 480, Title I sales agreements required payment for commodities in the recipient country's currency. Each sales agreement from inception to December 31, 1971, specified the amounts of currency for the country's use and for U.S. use, usually shown as a percentage of the total. After delivery of the commodities, the recipient country government deposited the required amount of currency for U.S. use in a special account to the credit of the United States. For some countries these currencies have not been completely exhausted and remain available for use by U.S. Government agencies. Federal agencies using such currency for a specified activity for which an appropriation has been provided, "purchase" the foreign currency and transfer the equivalent dollar value of the currency from their account to the Title I and III account.

Some of these foreign currencies were used for the so-called Cooley loans authorized by Section 104(e) of Public Law 480. As payments are made in U.S. dollars on these foreign economic development loans, these funds are also credited to the Title I and III account as foreign currency sales receipts.

The second category of receipts available for the Title I and III program is dollar repayments of principal and interest on the long-term credit sales first authorized in 1962 in Title IV of Public Law 480. In the Food for Peace Act of 1966, Title IV was combined with the original Title I program to establish what is today's Title I program. As these repayments of principal and interest are made, they are credited to the Title I and III account.

Many Title I programs require a currency use payment or CUP to be made by the recipient country. The CUP is used when a Title I agreement specifies payment in U.S. dollars, and the United States needs some of the recipient country's currency for various official U.S. activities. In those cases, the contract specifies how much foreign currency is required, usually as a percentage of the total Title I program value, and requires payment after delivery of the commodity. The CUP provision allows the United States to avoid purchasing the recipient country's currency with the U.S. dollars. When first received, a CUP is applied as principal against the Title I account receivable. Later when the scheduled payment of interest and/or principal would normally be made, it is applied to the scheduled dollar repayment. After the CUP is "purchased" by a U.S. agency using appropriated funds, the U.S. dollars received are credited to the Title I and III account.

When developing the Title I and III budget, estimated receipts are applied against the approved program level in the budget request to reduce the appropriation requested. In fact, in recent years receipts have been greater than the requested appropriation for the Title I and III program, and this trend is expected to continue. For example, in fiscal year 1981 receipts totaled $439.9 million, while the appropriation received was $406.3 million.

The other source of funding for Public Law 480 programs outside of direct appropriations is temporary Commodity Credit Corporation borrowing authority available for use in the Title II program. Because of the program limitation enacted in the agriculture appropriations act, however, this authority will be seldom used. It would be required if in an emergency situation the 300,000 metric ton emergency portion of the Food Security Wheat Reserve would be used. In that case borrowing authority would be needed for expenses, such as ocean transportation costs, which would not be available in the program's regular budget. This borrowing authority is of a temporary nature since an appropriation request for reimbursement of the Commodity Credit Corporation would be submitted to Congress with the Title II budget the following year.

GENERAL SALES MANAGER

Question: The General Sales Manager, by law, I understand, reports directly to the Commodity Credit Corporation Board of Directors.

How, then, is the function of the General Sales Manager integrated within the Foreign Agricultural Service? How does its administration occur and what is the chain of command?

Answer: Secretary Memorandum 2001, dated November 27, 1979, established the Office of the General Sales Manager within the Foreign Agricultural Service and designated the General Sales Manager to be an Associate Administrator of the Foreign Agricultural Service. As an Associate Administrator, the General Sales Manager is directly responsible for policy level decisions over the planning, execution, and evaluation of all the Department's export credit and market development programs.

Export Credits of the Foreign Agricultural Service, which implements the Department's export credit programs, reports to the General Sales Manager through an Assistant Administrator for Export Credits. Secretary Memorandum 2001 specifies that on policy matters relating to Public Law 480, Commodity Credit Corporation Export Credit Guarantees, and related programs, the General Sales Manager reports directly to the Secretary, who is Chairman of the Commodity Credit Corporation Board, through the Under Secretary for International Affairs and Commodity Programs, who is President of the Board. This reporting procedure carries over from the time when the Office of the General Sales Manager was a separate agency and was left unchanged by the 1979 Secretarial Memorandum. As a practical matter, the Administrator of the Foreign Agricultural Service is kept fully informed on all issues relating to the export credit programs, and the Administrator participates in decisionmaking related to export credits.

Foreign Market Development of the Foreign Agricultural Service also reports to the General Sales Manager, through an Assistant Administrator for Foreign Market Development. On policy matters relating to market development programs the General Sales Manager reports directly to the Administrator of the Foreign Agricultural Service.

The Office of the General Sales Manager was integrated within the Foreign Agricultural Service to strengthen the role of the General Sales Manager as principal sales spokesman for the Department by merging the export credit and market development programs under his direction. In addition, the reorganization was designed to enhance access of export credit program managers to the commodity expertise within the Foreign Agricultural Service, to information on world production, trade, and utilization of agricultural commodities, and to trade and commodity groups participating in the Department's market development programs overseas.

Question: How does the Office of the General Sales Manager allot time with respect to the many different programs being administered?

Answer: Allocating time and resources among various programs to insure their successful implementation requires balancing several complex factors. In part this allocation is based on the size of the programs to be administered. More important, though, are the demands and complexities of the programs, including legislative and regulatory requirements which must be complied with.

A case in point is the administration of the Commodity Credit Corporation's Export Credit Guarantee and Public Law 480 Title I and III programs. While significantly larger in terms of export shipments, the guarantee program actually requires less time and fewer people to implement. This is due in large part to the fewer legislative and regulatory requirements of the guarantee program. For example, Public Law 480 programs are subject to the Cargo Preference Act while the guarantee program is not. Export Credits of the Foreign Agricultural Service has a full division devoted to insuring cargo preference requirements are met on all Public Law 480 shipments, while no comparable office is needed for the guarantee program.

Public Law 480 programs are administered on an interagency basis. This requires additional time and resources for the Title I and III program which are not required for the guarantee program.

At any given time, the allocation of time among programs will also be influenced by current events, including market development opportunities overseas. As opportunities develop and are identified, regional program managers with Export Credits have the flexibility required to shift personnel among programs to respond to those opportunities.

Question: Is there a priority order for focus on the programs? If so, what are the priorities?

Answer: Priorities for all of the Foreign Agricultural Service programs, and particularly those for which the General Sales Manager is responsible, are established by the commodity marketing objectives of the Department. This would include both short-term commodity management objectives and longer-term market development objectives. As these objectives change, priorities for the Foreign Agricultural Service programs will shift accordingly.

To prepare its fiscal year 1983 budget request, the Foreign Agricultural Service did an evaluation of market development opportunities and constraints, and identified specific, additional programs and activities which could be undertaken to take advantage of the opportunities and to ameliorate the constraints. Information gained from this exercise formed the basis of the Foreign Agricultural Service budget request submitted to the Department. It is also probably fair to say that priorities for these programs were implicitly identified in the budget request. Export credit programs aside, the market development cooperator program is one of the few items for which the Foreign Agricultural Service requested a real increase in program level for fiscal year 1983.

With respect to export credit programs, our first priority is the Commodity Credit Corporation's Export Credit Guarantee Program. Second priority is the Public Law 480 Title I and III program, and third priority is special export activities which are undertaken in response to special circumstances. These could include direct sales of Commodity Credit Corporation stocks and barter programs.

The Commodity Credit Corporation's Export Credit Guarantee Program is our first priority in part because of the size of the program--$2.5 billion. Larger than other programs such as Public Law 480 Title I and III, the guarantee program can have a greater influence on United States agricultural exports. In addition, the guarantee program is first priority because of the quickness with which it can be programed. It can therefore be more effective in quickly responding to market development opportunities. Both the interagency nature and the more numerous legislative requirements of the Title I and III program require more lengthy programing procedures, making it more difficult to use for immediate market development opportunities.

Question: What, if any, changes have been made as a result of the Office of Inspector General's study of the handling of cargo loss and damage claims with respect to Title I exports?

Answer: No changes have been made regarding loss and damage claims on Title I cargoes. However, the problem is being studied. There are a number of administrative problems involved, as well as some legal aspects which are being considered.

Question: What is the value of average claims in a year?

Answer: Our knowledge of these values is limited, since there is no requirement for recipient countries to document loss and damage claims.

QUESTIONS SUBMITTED BY SENATOR ANDREWS

STEPPED-UP PRODUCTION OF OUR COMPETITORS

Question: I am more than pleased about the increase for the Foreign Agricultural Service's budget. Increased exports of grain could do more for our farmers than any farm program we could get through the Congress.

I found it very interesting that in your statement you say, "the partial embargo of sales to the Soviets in 1980 resulted in stepped-up production of our competitors."

This is a point most of us from agricultural states have been trying to make for years.

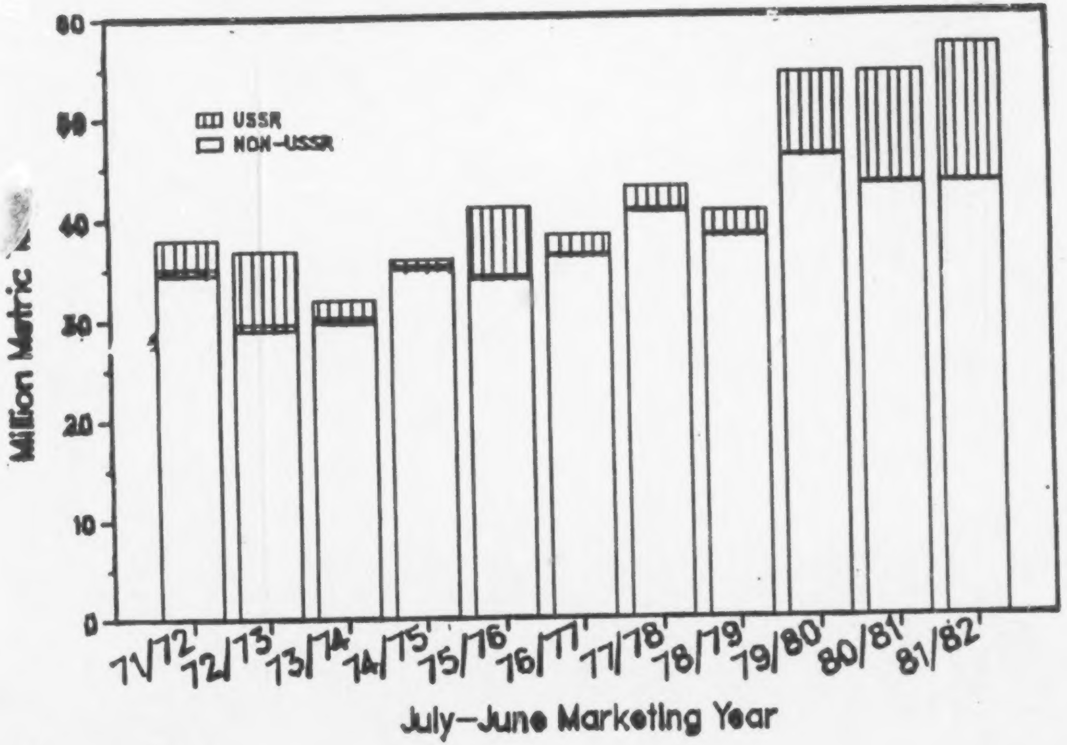
Do you have any concrete estimation of lost markets?

Answer: The Soviet Union itself, of course, represents the most dramatic example of reduced market share for the U.S. as a result of the embargo. We lost approximately 20 million tons of grain sales to the Soviets since the embargo because of Soviet efforts to diversify sources of supply and the eagerness of competitors to increase their share of the Soviet market. Argentina, in particular, signed a long-term agreement with the Soviets which locked in for 5 years annual shipments at a level exceeding, by significant quantities pre-embargo sales from Argentina. More significantly, however, than the obvious increase in competitor sales to the Soviets, is the fact that competitor grain exports to non-USSR markets also increased in the post-embargo era. Aggregate shipments by Australia, Canada, and the EC to non-Soviet destinations during the past 2 1/2 years are noticeably higher than shipments during the 10 years preceeding the embargo. Mexico, Taiwan, and South Korea are a few specific examples where major importing countries have stated publicly that they wish to diversify their sources of imported grain. Increased shipments by competitor countries to these markets has reduced U.S. market share by about 10 million tons since the embargo in January 1980.

Question: What exactly is the increased production that has taken place in Argentina, Brazil, etc?

Answer: Total grain production in the major grain producing/exporting countries (Argentina, Canada, Australia, Brazil, Thailand, and South Africa) has increased by more than 20 million tons since the 1979/80 season. Some of this increase has been accounted for by improved yields, but for the most part is explained by a sharp increase in sown area. Sowings for 1982/83 are expected to increase again, particularly in the case of wheat.

MAJOR COMPETITOR GRAIN TRADE*



AUSTRALIA, CANADA AND EC.

SUNFLOWER OIL MARKET PROMOTION

Question: What progress have we made in increasing sales of processed sunflower oil? What is the potential?

Answer: Until recently, foreign market development of sunflower oil was handled on a rather adhoc basis--one or two survey teams a year. Last year, however, the industry formed the National Sunflower Association--NSA. One of the main functions of NSA is to promote the export of sunflowerseed and products--including oil.

Sunflower oil promotional efforts to date this season include: a trip by the Administrator of NSA and a private industry oil executive to Algeria, Egypt and Western Europe; a Japanese Media Team to North Dakota, South Dakota, and Minnesota; a survey team to Venezuela to be followed up by an oil technician to help solve a refining problem; a consultant hired in Mexico; and the publication of a crop quality report. Oil activities already funded to be carried during the remainder of the season are an oil refining technician to Mexico and a sunflower oil mission to Japan.

World sunflower oil exports in MY 1977/78 amounted to 728 thousand tons of which the United States shipped 34 thousand tons or about 5 percent. For the current Marketing Year, world exports are projected at about one million tons, with the U.S. share projected at about 17 percent or 165 thousand tons.

Sunflower oil is one of the preferred vegetable oils in a number of countries such as Mexico, Venezuela, Algeria, much of Western Europe, the USSR, Egypt, and Japan. As long as the price for sunflower oil is not too much greater than competing oils, the potential for continued expansion of exports is significant.

EC SUBSIDIES

Question: We all know that the European Economic Community's policies of subsidizing their farmers has worked to our disadvantage. What progress are you making diplomatically in this matter? Will it take legistlative action to correct the situation?

Answer: The U.S. Government is making progress diplomatically by maintaining pressure on the EC to relinquish its policy of providing excessive subsidies to its farmers.

In parallel with the GATT dispute settlement proceeding against EC export subsidization of wheat flour, sugar, pasta and poultry, every opportunity is being taken by high-level U.S. officials to impress upon the EC the seriousness of our concerns regarding their subsidy practices. This concentrated effort is part of the U.S. Government's comprehensive strategy for dealing with EC unfair trade practices. Beginning with Secretary Block's trip to Europe last spring, the United States has persistently challenged EC subsidy policies which allow the EC to shift the cost of its internal agricultural adjustments to its trading partners. Secretary Block, U.S. Trade Representative Brock, Secretary Haig, and other Cabinet officials have stressed our position that the EC should cease its use of agressive export subsidies which are disrupting or displacing U.S. sales to foreign markets. The United States has attacked EC subsidies on numerous occasions and in key consultations including the U.S./EC High-Level Consultations in November 1981; Cabinet-level discussions last December in Brussels with EC President Thorn and the EC Commissioners; and the follow-up Ministerial meetings in Washington in February 1982 with EC Commissioner Dalsager and other EC officials. The United States will continue to maintain coordinated and forceful diplomatic pressures on the EC during future consultations.

Legislation to seek relief from foreign export subsidies which reduce sales of competitive U.S. products in domestic or foreign markets is provided for under Section 301 of the Trade Act of 1974. Petitions have been filed under Section 301 against EC export subsidies on wheat flour, sugar, pasta and poultry. These cases are currently in dispute settlement proceedings under the GATT Subsidies Code. The Subsidies Code specifically prohibits the use of subsidies on primary products which result in that country gaining more than an equitable share of world export trade, or materially undercutting the prices of other suppliers in the same market. Section 301 and the Subsidies Code provide the foundation to bring the use of subsidies under control. If they fall short of expectations, the procedures may have to be reviewed and strengthened.

In addition to domestic and international legal recourses for excessive export subsidies, the EC Commission has proposed new guidelines for the Common Agricultural Policy aimed at curtailing surplus production and the subsequent need for subsidies. This change in the direction of EC policy could help to mitigate problems caused by EC subsidies and remove unfair trade competition.

TRADE OFFICES

Question: How many additional trade offices have you established in the last year?

Answer: In the last year three Agricultural Trade Offices--ATO's--were established for a total of ten.

Question: You have legislative authority to establish 25 trade offices, when do you expect to reach this limit?

Answer: Growth of markets in countries within the trade areas now covered by ATO's; development of new markets for U.S. agricultural products outside of the trade areas now covered; and availability of funds are the principal factors that will determine when and if the total of 25 ATO's authorized by the Agricultural Trade Act of 1978 are established.

QUESTIONS SUBMITTED BY SENATOR EAGLETON

U.S. AGRICULTURAL EXPORT TRENDS SUBSEQUENT TO THE 1980 SOVIET EMBARGO

Question: Your statement indicates that "Export Markets for U.S. Farm Products began to soften in the April-June quarter of 1981". Does this mean that even with the 1980 agricultural embargo, the growth in U.S. agricultural exports continued until the April-June quarter of 1981?

Answer: If we distinguish between trends in export value growth as opposed to trends in export volume growth, then this is not entirely true. The fourth quarter of 1980 decreased in export volume compared to the fourth quarter of 1979. Export volume also decreased in the second quarter of 1981 compared to the second quarter of 1980. In other words, subsequent to the embargo and through the April-June quarter of 1981, two quarters registered decreased volumes compared to the previous year. Thus, in terms of export volume trends, growth was not continuous from the beginning of 1980 through the April-June quarter of 1981.

Trends in export value subsequent to the embargo show that there was not a decrease in export value relative to the same quarter of a previous fiscal year until the third quarter of 1981. This was the first such decrease since the third quarter of 1976. In fact, both the third and fourth quarters of 1981 registered export value decreases compared to the third and fourth quarters of 1980, and this was the first such successive, two-quarter decline since the 1960's. In that sense, export value growth continued after the embargo until the third quarter of 1981, but the "softening" of markets became evident in terms of export volume trends in both the fourth quarter of 1980 and the second quarter of 1981.

It should be noted that export value growth was secularly evident throughout the 1970's and into the 1980's--this growth occurred in spite of previous embargoes and other such market disruptions. The most recent embargo is clearly not an exception to this rule. Such growth attests to a rapidly growing foreign demand for farm products which has in the past been sufficient to offset the otherwise dampening effects of export market disruptions.

COMPETITOR PRODUCTION SUBSEQUENT TO THE 1980 SOVIET EMBARGO

Question: Your statement indicates that the 1980 embargo resulted in "stepped-up production of our competitors". Please provide a list of our major competitors and their production figures for 1979, 1980, 1981, and, if available, their expected 1982 production.

Answer: Major competitor countries for grains are Argentina, Australia, Canada, the European Community and South Africa. For oilseeds, major competitors are Argentina, Brazil, Canada and Paraguay. Forecasts of competitor countries' production for 1982 will first be available in May for grains and in July for oilseeds. I will provide for the record a table showing the latest estimates for world production in 1979, 1980 and 1981.

(The information follows.)

Production of Major Competitors
(1000 metric tons)

	1979	1980	1981
Argentina			
Grains	18,711	28,723	26,960
Oilseeds	6,676	5,762	7,125
Total	25,387	34,485	34,085
Australia			
Grains	22,398	15,953	23,131
Brazil			
Oilseeds	16,714	17,050	15,759
Canada			
Grains	35,803	40,976	50,210
Oilseeds	5,115	3,827	3,077
Total	40,918	44,803	53,287
European Community			
Grains	117,959	124,795	122,794
Paraguay			
Oilseeds	740	815	838
South Africa			
Grains	13,809	16,354	11,828
Total Grains	208,680	226,801	234,923
Total Oilseeds	29,245	27,454	26,799
Combined Total	237,925	254,255	261,722

Note: Grains include wheat, corn, barley, oats, grain sorghum, rye, millet and mixed grain. Oilseeds include soybeans, peanuts, cottonseed, sunflowerseed, rapeseed and flaxseed.

COOPERATOR PROGRAM

Question: Please provide for the record a list of cooperators in the market development program, the dollars committed by them to their cooperative program and the Federal commitment to the same program. If available, please provide these figures for programs that occurred in FY 1981, FY 1982 and what is being proposed for FY 1983.

Answer: We will provide a list of cooperators showing FAS contributions as well as cooperator contributions for FY 1981. We will also provide estimated FAS contributions for FY 1982 and 1983. We do not have cooperator contributions for FY 1982 and FY 1983, the ratio of contributions to FAS project funds expended for FY 1982 and FY 1983 is expected to remain approximately the same.

(The information follows.)

M.D EXPENDITURES FY 1981-1983
BY COMMODITY AND COOPERATOR

(Dollars in Thousands)

COMMODITY AND COOPERATOR	FY 1981 Actual	FY 1982 Estimate	FY 1983 Estimate
TRADE PROGRAMS			
Cotton			
CCI	1,231	1,300	1,300
IIC	2,276	2,340	2,340
SEEDS	108	130	130
Tobacco Associates	-0-	50	30
Total Cotton Seed & Tobacco	3,615	3,820	3,800
Dairy and Poultry			
Dairy	-0-	5	-0-
PEIA	915	1,058	1,335
Total Dairy & Poultry	915	1,063	1,335
Oilseeds and Products			
ASA	2,766	3,304	3,500
NPC	350	426	511
Sunflower	-0-	107	128
Cottonseed	11	27	32
Total Oilseeds	3,127	3,864	4,171
Fruits and Vegetables			
Potatoes	72	85	89
Table Grapes	51	67	71
Raisins	388	458	476
Florida Citrus	275	315	327
N.W. Horticultural	104	132	137
Cling Peaches	483	515	521
Avocados	172	172	178
Blueberries	1	-0-	10
Papayas	39	57	60
Walnuts	-0-	29	30
Florida Nurserymen	22	29	35
Total Fruits & Vegetables	1,607	1,859	1,934
Grain and Feed			
U.S. Wheat Associates	3,918	4,270	4,607
Millers' Federation	17	12	31
Feed Grains	2,012	2,967	3,343
Rice Council	912	1,174	1,304
Dry Bean	55	62	63
U.S. Dry Pea	101	141	195
Protein Grain	39	12	15
National Hay Association	4	6	6
The Popcorn Institute	-0-	-0-	-0-
Total Grain and Feed	7,058	8,644	9,564
Livestock & Livestock Products			
Renderers	763	1,104	1,679
Tanners	195	192	292
Breed Associations	190	227	345
EMBA	204	221	335
Quarter Horse	17	17	27
Animal Breeders	26	23	35
U.S. Meat Export Federation	699	872	1,316
Mohair	3	6	19
Swine	41	47	71
Appaloosa Horse Club	-0-	17	27
Total Livestock and Products	2,138	2,726	4,146

M.D EXPENDITURES FY 1981-1983
BY COMMODITY AND COOPERATOR -- CONTINUED

(Dollars in Thousands)

COMMODITY AND COOPERATOR	FY 1981 Actual	FY 1982 Estimate	FY 1983 Estimate
Forest Products	66	200	300
Catfish	-0-	8	14
State Groups			
EUSAFEC	54	50	77
MIATCO	70	70	109
SUSTA	96	80	124
WUSATA	62	60	93
NASDA	100	500	620
Total State Groups	382	760	1,023
SUBTOTAL COOPERATOR PROJECTS	18,908	22,944	26,287
Export Incentive Programs (EIP)			
Almonds: CAGE	226	440	500
Rio Del Mar	35	25	27
DeFranco	-0-	-0-	-0-
Duche	-0-	-0-	-0-
Citrus: Pure Gold	12	-0-	-0-
Sunkist	445	470	519
Sunworld	20	22	22
Seald Sweet	17	10	11
Texasweet	9	10	11
Texas Citrus Exh.	40	15	11
D-N-E Sales	13	-0-	-0-
Indian River	-0-	-0-	-0-
Cranberry: Ocean Spray	31	50	54
Prunes: Diamond Sunsweet	120	110	140
Fresh Produce: Bud Antle	75	58	81
Yurosek	25	16	21
Pioneer	-0-	-0-	-0-
American Foods	12	12	16
Processed Vegetables: NORPAC	-0-	-0-	-0-
NOWACO	-0-	-0-	-0-
Green Giant	35	35	38
Del Monte	40	20	22
Cedergreen	-0-	10	11
Rogers-Walla Walla	-0-	-0-	11
Wine: Perelli-Minetti	-0-	5	5
Franciscan	-0-	5	5
Giumarra	-0-	5	-0-
Paul Masson	15	17	16
Turgeon & Lohr	-0-	5	5
Wente Bros.	9	-0-	11
San Benito	8	-0-	11
Almaden	2	10	11
Martini	-0-	-0-	-0-
Numano	-0-	10	10
Gallo	75	75	74
Lambert	8	7	7
Boles & Co.	-0-	12	11
Carnation	15	-0-	-0-
East-Side	-0-	5	5
Mirassori	-0-	5	5
Delicato	-0-	-0-	11

-- CONTINUED --

M.D EXPENDITURES FY 1981-1983
BY COMMODITY AND COOPERATOR -- CONTINUED

(Dollars in Thousands)

COMMODITY AND COOPERATOR	FY 1981 Actual	FY 1982 Estimate	FY 1983 Estimate
EIP -- CONTINUED			
Walnut: Diamond/Sunsweet	-0-	183	118
Defranco	-0-	-0-	-0-
Total EIP	1,287	1,647	1,800
TOTAL MARKET DEVELOPMENT TRADE PROGRAMS	20,195	24,591	28,087
PROJECTS			
A. Direct Overseas Promotion			
1. Trade Fairs Exhibits	623	684	794
2. POP Promotions	62	71	82
3. Other	71	82	95
B. Indirect Overseas Promotion			
1. TORS	20	22	25
2. CONTACTS/SUPPORT	47	43	50
3. New Product Testing	4	4	5
C. Research, Evaluation, Planning			
1. FAS	43	43	50
D. Other FAS Projects	144	98	114
Total FAS Projects	1,014	1,047	1,215
TOTAL MARKET DEVELOPMENT PROJECTS	21,209	25,638	29,302
TRADE OFFICES	1,729	2,700	2,820

FAS/FMD/PED/PSB
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CREDIT PROGRAMS

Question: Your statement indicates the following: "The U.S. objective is to beat the competition with better trade servicing, improved credit programs, and precise marketing plans to move specific amounts of grain in 1981/82 and subsequent market years".

-What improved credit program are you referring to and what are the specific improvements that have been made in it?

-What "specific amounts of grain" are your proposals intended to move in 1981/82?

Answer: The credit program referred to is the Export Credit Guarantee Program--GSM-102. The improvements are in the program processing and market targeting areas. Program processing has been improved to make credit guarantees available to appropriate markets on a more timely basis, thus enhancing the competitiveness of our exporters. Secondly, our planning for credit use effectiveness has been improved to assure more effective use of credit guarantees in export market expansion and development. Additionally, the Department continues to analyze and review alternative credit programs that will further promote export market growth. Changing market conditions effect specific amounts of grain that may be exported and the planning process and projected exports are continually being revised. However, GSM-102 guaranteed credit totaling $1.12 billion for grain sales, including wheat, coarse grains and rice, has been announced and we expect total credit guarantees for grain exports in FY 1982 will be in the neighborhood of $1.5 billion.

REVOLVING FUND

Question: Should Congress capitalize the Export Credit Revolving Fund? Would this be a beneficial tool in expanding agricultural exports?

Answer: The Farm Bill of 1981 authorizes the Department to establish a revolving fund, however, we have not as yet requested funding from Congress because of budgeting pressures, current high interest rates, and because we believe a revolving fund would largely complement our existing programs rather than provide the more liberal credit terms which offers the main potential for expanding our agricultural exports. We believe a revolving fund might be useful in expanding some markets, such as: Algeria, Egypt, Indonesia and Nigeria.

Question: The Congress has provided the Department with the authority to make up to $2.5 billion in direct loans to countries in support of export activities. What does your model show is the impact on farm prices of a $100 million increase in exports of $2.5 billion export sales on commodity prices? If commodity prices are increased as a result of $2.5 billion increase in agricultural exports, what would be the resultant impact on the cost of the price support programs?

Answer: In evaluating the price impact of increases in exports, we do our analysis by commodity. It also helps to work with tonnage rather than dollar figures, as the price of each commodity changes so frequently. For instance, our model shows that, for every extra 100 million bushels of wheat exported, wheat prices rise by 15-20 cents per bushel--depending upon stocks, market conditions, etc., at the time. For corn, 100 million bushels makes a difference of 6-9 cents.

The impact of financing $2.5 billion in direct credit export sales, assuming it does not displace GSM-102 sales, not only varies according to commodity mix and prices at the time, but the amount of extra exports that would be generated from this credit. It would also depend on the extent of this program since the larger the amount of the program, the more marginal situations we get into in terms of additionality. If, for example, $500 million of additional exports--beyond what would have been exported without the use of credit--were generated from the $2.5 billion of financing, if all of that were wheat, and if that amounted to about 3 million tons--or 110 million bushels--the price of wheat would rise by 16-22 cents.

Again, the impact on support programs would depend upon the commodity, whether or not there is a set-aside program in effect, etc. For example, under current conditions, our analysis shows that a 35 cent increase in wheat prices would mean a reduction in outlays --loans, inventory, storage, and deficiency payments--of $285 million. Our model also shows that an additional $2.5 billion in exports--if all the credit represented a net increase in U.S. exports--would generate: over $5 billion in additional economic activity; nearly 72,000 jobs; and $450 million in tax revenue.

MARKET EXPANSION PLANNING

Question: Foreign Agricultural Service has studied the impact of increased market development activity on increased sales and on increases in price supports. What has this analysis shown will be the impact of the requested increase in market development funds?

Answer: A major portion of the increase, approximately 2.7 million dollars, will be used to cover increased operating costs overseas. This money will help to prevent a decline in agricultural exports due to a real decrease in market development expenditures. Foreign Agricultural Service analysts, in conjunction with the cooperators, have estimated that the remaining 1.2 million dollar increase will have a significant impact on the U.S. economy and agricultural sector. It is estimated that the expenditures will increase real U.S. agricultural exports by 22.3 million dollars; U.S. economic activity by 457 million dollars; employment by 6300 jobs; and tax revenues by 40 million dollars per year for fiscal years 1983-1985. If the recommended market access activities are successful, it is estimated farm prices will increase by an average of 5 cents per bushel for wheat, 2 cents per bushel for corn, and 7 cents per bushel for soybeans. In addition, farm income will rise by an average of 300 million dollars and government program costs may decline by as much as 275 million dollars per year for fiscal years 1983-1985.

Question: The Secretary has indicated that the Administration has developed a new comprehensive export promotion effort. Please describe this and indicate whether additional funding is necessary to carry this effort out.

Answer: The Foreign Agricultural Service has recently implemented a new market expansion planning system. The system involves working closely with cooperators to evaluate current foreign market development efforts, identify new markets and commodities with export expansion potential, identify constraints to the expansion of exports to new markets, recommend activities to overcome the constraints, estimate the costs and potential sales increase associated with the activities, and calculate sales/cost ratios. The system enables the Foreign Agricultural Service and its cooperators to allocate existing market development funds to the activities and markets with the best potential for payoff. Furthermore, additional market development funds can be targeted to obtain the highest export return per additional dollar expended. The system has been implemented within existing budget levels.

Question: Has the Administration targeted any Eastern Bloc countries for expanded trade efforts?

Answer: The Administration has not included any Eastern Bloc countries in its market expansion efforts. Although it appears that these countries have significant potential for increased purchases of U.S. commodities, the financial condition of and political relations with a number of the countries are not currently conducive to expanded market development efforts.

PUBLIC LAW 480

Question: Current law requires a minimum tonnage of 1.7 million tons for Title II, P.L. 480, and yet the budget request only provides for a program of 1.3 million tons. Does the Administration intend to meet the requirements of the law or are you proposing legislation to amend the minimum tonnage requirements?

Answer: The Administration's budget request will, at currently, estimated prices, provide 1.6 million tons. It will provide the legislatively required 1.2 million tons for regular ongoing feeding activities of the private voluntary agencies and the World Food Program. The Administration has several tools - a supplemental request, a transfer from Title I, and use of the Food Security Wheat Reserve - to meet emergency portion of the Food Security Wheat Reserve - to meet Title II tonnage needs. Should it be the case that 1.7 million tons is not required next fiscal year, the Administration will avail itself of the waiver authority contained in Title II.

Question: It has been brought to my attention that you are considering using less processed and fortified products in both Title I and, especially, in Title II. Is this the case and does it not directly contradict the expressed policy of the Administration to promote the export of value-added farm commodities?

Answer: This Administration does indeed support the promotion of additional exports of value-added agricultural commodities. We are endeavoring in a variety of ways to develop long-term commercial markets for our value-added products overseas.

With respect to the Public Law 480 Title I program which has a strong market development component, we presently anticipate that in fiscal year 1983 there will be no significant reduction in the programing of processed commodities. The one country where some reduction could occur is Egypt where the Title I allocation is projected to decrease from $275.0 million this year to $250.0 million in fiscal year 1983. Despite this modest reduction in the overall program, we expect that Egypt will continue to import substantial quantities of wheat flour through the Title I program.

The volume of commodities programed through the Title II program in fiscal year 1983 will be reduced 12 percent from the fiscal year 1982 level. Reduction in the volume of processed and fortified foods are thus in keeping with the overall trend in the program level. The Title II program is almost exclusively a humanitarian program with minimal long-term market development objectives. While the reduction in volume of processed and fortified commodities programed in fiscal year 1983 will have some impact on value-added exports in the near-term, it is unlikely that our long-term market development efforts on behalf of value-added products will be affected.

Question: How much money budgeted for P.L. 480 will actually be used for maritime subsidies in FY 1983. Please compare this figure with the subsidy figures for FY 1981 and 1982?

Answer: For the Title I and III program in fiscal year 1983, we estimate that program obligations for ocean freight differential payments will total $91.6 million. This compares to fiscal year 1981 obligations of $86.7 million and estimated fiscal year 1982 obligations of $87.1 million.

An estimation of ocean freight differential expenditures for the Title II program is more problematic since all ocean transportation costs are financed by the program. However, it is generally agreed that between 8 and 10 million dollars is spent each year in the Title II program for the added cost of shipping 50 percent of the commodities on U.S. flag vessels.

Question: Has any consideration been given to having the maritime subsidy funded by the Department of Commerce or the Pentagon rather than coming out of the food purchase dollars?

Answer: Yes, but because of the administrative problems involved, the decision was made to keep the subsidy--ocean freight differential--within USDA. We have the opportunity and incentive to contract for commodity and transportation to reach the lowest landed cost. The Department of Commerce, Department of Transportation and the Pentagon might be more concerned with benefits to the maritime industry and its subsidy as opposed to controlling subsidy costs and maximizing the movement of agricultural commodities.

QUESTIONS SUBMITTED BY SENATOR KASTEN

DAIRY TRADE POLICY

Question: Do you believe that a revision of the United States export-import policy could narrow the gap between the value of dairy products exported as compared to the value of similar products imported?

Answer: Last year the value of our dairy product exports amounted to around $300 million and imports $523 million. We expect the value of our 1982 exports to be up sharply due in large part to the New Zealand Dairy Board's purchase of surplus United States butter. Obviously, for the United States to compete effectively on world markets would require substantial government subsidization, since our dairy products are currently 1-1/2 to 2 times higher than world market prices. The use of subsidies is contrary to this government's philosophy of free world trade. However, under the current surplus situation, we are exploring means to move some of our surplus products overseas in ways that will not jeopardize our initiatives to free up world trade.

Question: With the increased emphasis on FAS market development activities, what is being done to expand exports of United States dairy products?

Answer: Commercial dairy exporting will continue to be difficult as long as United States prices are far above world levels. New products offer an effective means of expanding our dairy exports in today's trading climate. The Department assists traders by making available names of United States suppliers to them.

Question: Of the over $500 million in total dairy imports last year, how much is directly competing with--and displacing--domestic production? Do you have figures on this? Doesn't the export-import imbalance lead to even greater CCC purchases of dairy products?

Answer: We do not have specific data on the dairy imports displacing our domestic products and those that do not. Cheese is our major import item, 85 percent of our dairy imports on a fat solids basis. Of course, cheddar- and American-type cheeses are likely to compete with our domestic cheeses. The 12 million pounds we brought in last year represented only about 0.5 percent of United States production. Last year we imported 67 million pounds of Swiss or Emmenthaler types and we estimate that 25 percent of these types are competitive with our barrel cheese used for processing. The "Not Specifically Provided For" category amounted to 83 million pounds last year and includes 300 different types of cheese. A sizable proportion of those cheeses is probably competitive but in total represents less than 2 percent of United States cheese production.

Question: I have heard estimates that over 90 percent of the types of cheese imported are also produced in the United States --and that the imported cheese has displaced domestic production and resulted in government purchases of over 2 billion pounds of dairy products on a milk equivalent basis. Do you have any information on this? Have you looked at the impact of subsidized cheese imports on the Dairy Price Support Program?

Answer: We have developed the capacity and do produce most imported cheese types. However, the allegation that all imports displace domestic production is doubtful. Some imported types of cheese do compete directly with domestic types and others do not. Therefore, an estimate that the 2 billion pounds of all dairy products on a milk equivalent fats solids basis that we import annually has resulted in government purchases of a like amount is greatly exaggerated. We believe the imported cheeses have helped nurture a demand by Americans for variety and are complementing and increasing sales of our domestic types. Last year United States consumption of cheese, excluding cottage cheese, rose to over 18 pounds per person, reaching another record and marking a nearly steady rise in cheese use over the past two decades. The quota levels set for imported cheese were judged not to materially interfere with the support price program at the time they were established in 1979, in their present form and are not considered to be interfering now.

The fact that some of this cheese is subsidized does not in and of itself affect the program. Domestic producers are protected from displacement by excessively low-priced quota cheeses by the price-undercutting provisions of Section 702 of the Trade Agreements Act of 1979.

QUESTIONS SUBMITTED BY SENATOR BOSCHWITZ

DAIRY PRODUCTS

Question: Last year Congress amended Section 403(b) of P.L. 480 in order to allow the Secretary to ship more dairy products through P.L. 480. The authority in this amendment provides for a reduced price when milk and other products move from CCC stocks to the P.L. 480 program. Why has this amendment not been used to move larger quantities of dairy products? Is it true that the Department intends to use this authority to achieve savings for additional purchases of rice?

Answer: The Department is considering the implementation of the Farm Bill pricing provision, the Kasten Amendment, this year. However, we do not expect to use this authority to ship additional commodities under Title II as appropriate. In view of the lateness in the Title II programing year, i.e. 9 months into the year, it is unlikely that additional nonfat dry milk could be moved under the program. However, in order to respond to emergency food needs during the remainder of FY 1982, additional commodities, generally grains although milk, oil and blended foods may also be included, will be used.

Question: I am concerned about the amount of money paid for transportation costs rather than commodity purchases. When was the last time the Department reviewed its Title I freight booking practices? At a time when we desperately need more money for farm-product purchases, it would seem important to make sure that shipping activities are as efficient and inexpensive as possible. Has the Department considered reducing or eliminating the ocean freight differential paid to U.S. vessels under Title I? The $90 million expended each year for this purpose would buy a great deal of farm products.

Answer: The Department does not make bookings on Title I commodities. We do have responsibility for vessel approval to ensure that requirements of Public Law 83-664 be followed. Proposed changes in Title I Regulations are currently being reviewed.

To minimize ocean freight differential costs, we work closely with the Maritime Administration to obtain approval for the use of larger U.S. vessels. When these larger vessels can be used, it reduces the average differential. Eliminating payment of Title I ocean freight differential would increase the delivered cost of grain purchases, on U.S. flag vessels, to participating nations by as much as two dollars a bushel. This additional cost would make the program less beneficial to the recipient developing countries. Ultimately, Title I would become less effective as an instrument in our market development efforts. Following a study of ocean freight differential, the President, on February 10, 1978, recommended continuation of such payments by the Department. Further, in today's stringent budget environment the elimination of this requirement is unlikely to result in additional funding for commodity movement.

Question: Is the Department still using expensive, over-age vessels in the Title I program? It is my understanding that a Department/Industry Oilseed Team sent by Secretary Block to the Indian Subcontinent last year recommended the elimination of all vessels over 15 years of age. Has anything been done about this recommendation? How many times have ships over 20 years old carried Title I cargoes in the past three years?

Answer: There is no age restriction on vessels eligible for participation in Title I programs. We must follow the requirements of the Cargo Preference Act (PL 83-664) in this area. We have no legal authority to exclude these vessels from participating in the program.

During the past 3 years, it appears that 42 vessels over 20 years of age have participated in 117 voyages under Title I of the Public Law 480 program.

OFFICE OF INTERNATIONAL COOPERATION AND DEVELOPMENT

QUESTIONS SUBMITTED BY SENATOR COCHRAN

AFRICAN SWINE FEVER

Question: What is the current status of the African swine fever problem that has been the subject of the Office of International Cooperation and Development involvement in the Dominican Republic and in Haiti?

Answer: In 1979, OICD, in collaboration with the Animal and Plant Health Inspection Service, entered into an agreement with the Agency for International Development and the Government of the Dominican Republic, GDR, to provide assistance for the eradication of African Swine Fever, ASF, from the Dominican Republic. This disease was successfully eradicated from the Dominican Republic by mid-1981, and the GDR is now in the process of restocking the country with improved breeds of swine, some of which are being purchased from U.S. breeders. One of the principal benefits to the U.S. is the prevention of spreading the disease to this country.

During 1981 we obtained the active assistance of the Inter-American Institute for Cooperation on Agriculture, IICA, in combatting African swine fever, particularly in Haiti. The previous year, at U.S. request, IICA adopted the systematic effort to control animal and plant diseases having a major economic impact on the agriculture of member countries as a major objective. Because of the international character of the Institute, it was possible to obtain additional funding from other governments, such as Mexico and Canada, to eradicate African swine fever in Haiti and throughout the Caribbean. This effort is underway, with the cooperation of the Haitian Government authorities. Plans call for destruction of diseased animals and, after certification that Haiti is free of African swine fever, repopulation of the hogs. The cooperation of the government and people concerned is essential to the successful implementation of the plan. A retired Administrator of APHIS was hired by IICA as Director of this new program.

EXPANDED AGRICULTURAL MARKETS IN CHINA

Question: What is your assessment of the potential for expanded agricultural markets in the Peoples' Republic of China? What is your research indicating?

Answer: The assessment and development of agricultural markets comes under the purview of the Foreign Agricultural Service. OICD, therefore, makes no plans to involve itself directly in marketing activities. However, information received which relates to marketing activities is channeled to FAS and other appropriate U.S. Government Agencies. The China Staff of the Scientific and Technical Exchange Division, STE, serves a valuable liaison function, transmitting information gathered through the binational exchanges and by facilitating contacts with representatives of the PRC.

One such instance is the assistance provided the Federal Grain Inspection Service and the Animal and Plant Health Inspection Service in setting up contacts and developing an exchange to deal with the establishment of grading standards for grains and health standards for animals and plants, necessary for the establishment of a formal market development effort. In addition, some exchange activities are specifically developed to foster trade relations. For example, an exchange is proposed to foster information about transportation; material obtained will be used to expedite the shipment of products.

As more person-to-person contacts take place, greater demand will develop for products neither produced nor available in China. The Chinese clearly indicate what they want but they will not be moved by aggressive sales. Presently, they have shown an interest in U.S. trucks and farm vehicles. They have contracts with Ford and Deere but are eager to look at IH and Allis Chalmers. A World Bank loan may lead to the purchase of U.S. laboratory equipment.

In essence, PRC planning is predicated upon their desire to close an intellectual and technical gap of ten years in as short a span as reasonable. Almost any technique or purchase that leads to immediate results will take precedence over long-term research. A major mistake was made in the over-emphasis on the role of heavy industry. That kind of error brought about canceled orders but market expansion is expected to take place at a manageable pace in the near term and this will require credit and innovative financing by both sides.

ASSESSMENT OF AGRICULTURAL AND FOOD PROGRAMS

Question: What is your assessment of the impact that your office has on the agricultural and food programs of developing countries? Please provide a list of project countries, for the record.

Answer: As indicated in my prepared statement, we believe our programs benefit American agriculture while also contributing to the solution of worldwide food and agricultural problems. The examples, presented in the statement, give a picture of specific impacts in various regions or countries. I think these impacts are significant in improving the lives of people worldwide.

Individual OICD staff members often tell me about high-level officials in the governments of cooperating countries who have participated in earlier OICD programs. Our programs have an impact on those persons, and through them, on the programs in their respective countries. Among other things, these participants gain a familiarity with U.S. products and markets, our research, teaching, and extension institutions and methods, and with individuals. This familiarity leads to goodwill and personal relationships.

The lives of many other individuals in cooperating countries are indirectly enhanced through OICD programs. As a result of our programs, people in these countries have benefited through increased incomes, improved health and nutrition, better community services, or more efficient use of natural and human resources.

I firmly believe that without the programs conducted by OICD, the food and agriculture of developing countries and the lives of people in many countries would be seriously affected. I believe we have made a contribution to a more peaceful world, and that we are continuing to do so.

As requested, a list of OICD activities by country is provided for the record. The list is organized by regions, including North Africa and the Middle East, Sub-Sahara Africa, Latin America and the Caribbean Basin, Europe, Oceania, and Asia.

SUMMARY OF OICD ACTIVITIES
NORTH AFRICA AND THE MIDDLE EAST

Egypt

USDA economists and statisticians are assisting the Ministry of Agriculture and Food Security in Egypt to develop staff and institutional capacity within the Agricultural Economics Research Institute in the fields of agricultural statistics and related agricultural economic research planning and methodology development. Also USDA training personnel are assisting in development and implementation of related training programs. Implementation of the Agricultural Data Collection and Analysis project began in January.

In collaboration with USDA's Economic Research and Statistical Reporting Services, the International Training Division will conduct a number of short courses in applied agricultural statistics in Egypt. Additionally, project plans call for training 16 academic and 40 nonacademic participants during the next 5 years.

The Government of Egypt has requested technical assistance from USDA in gathering data on crops and livestock for a planning agricultural development program.

The International Research Division directs the implementation of 67 active cooperative research grants in Egypt. All areas of agricultural research are included in the program with emphasis on projects of high priority interest to U.S. agriculture. Projects are funded through the Special Foreign Currency Research Program.

Under the auspices of FAO, USDA is assisting the Government of Egypt in the establishment of additional cotton testing laboratories and in the implementation of its programs including: (1) the classification and evaluation of the whole output of the cotton crop, (2) training Egyptian classes on short staple of foreign cottons, (3) the preparation of cotton standard boxes for grades of all varieties, (4) the determination of moisture regain, and (5) the determination of fiber and grain properties of Egyptian and foreign cottons.

An applied Agricultural Research Program with Title III P.L. 480 support has been developed cooperatively with the Government of Egypt, AID, and the Department of State. This program, using Title III resources and additional funds contributed by AID and the host government, is expected to be finalized in the next few months. This new program will utilize the most productive elements of the Special Foreign Currency Research Program any phasing out in Egypt and considered highly successful by Egyptian officials.

The Egyptian Minister of Agriculture invited participation of U.S. Cooperating Scientists in a Conference to review results of our cooperative agricultural research activities under the special foreign currency research program. Dr. Wallace accepted the invitation and attended the Conference as leader of the USDA delegation. The Conference was held December 15-17, 1981, in Cairo.

The self-help measures for the P.L. 480 Title I agreement with Egypt cover a broad range of activities including examination of agricultural price and consumer price subsidy policies, research and extension activities, and examination of investment in new lands. A measure which addresses a key USDA concern calls for continued discussions of ways to improve the climate for U.S. private investment in Egyptian agribusiness.

A P.L. 480 Title III program has been underway in Egypt since March 1979. The latest evaluation of this Basic Village Services (BVS) program included team members from Development Planning and Analysis, FAS and AID. The purpose of the BVS program is to promote decentralization of the Egyptian Government, particularly of those ministries involved in development operations. Under the program, village councils ask for funding of projects of their own choosing, e.g., potable water, irrigation and drainage, and rural road construction.

Cooperative activity in Egypt is very limited; the intent is to complement existing agency programs in Egypt, which are broad-ranging and include training, research and technical assistance components, with short-term exchange activity. For FY 1982, such activity is in the area of nitrogen/phosphorous effects on maize growth.

Israel

The Government of the United States and Israel signed an Agreement in 1977 establishing a (Binational) Agricultural Research and Development Fund (BARD). The purpose of BARD is to promote and support cooperative agricultural research among United States and Israeli scientists for the mutual benefit of agriculture in both countries.

Approximately 100 cooperative agricultural research projects are now in force, each of which has been determined to be of significance in supporting U.S. agricultural research priorities.

Jordan

A USDA Economist serves on the Food and Agriculture staff in the USAID Mission to Jordan. He is presently charged with the design and management of a project to establish three agricultural research sites in the heart of the Jordan Valley.

Morocco

An agreement between OICD and the Fez-Karia-Tissa Development Project of the Kingdom of Morocco provides for 7 month on-the-job training programs in soil conservation and range management techniques in cooperation with USDA Soil Conservation Service research stations. Four participants received training in FY 1981 and seven are expected in FY 1982.

The FY 1982 P.L. 480 Title I agreement with Morocco included a self-help measure supporting expansion and implementation of the Remote Sensing for Agriculture Area Sampling Project. The project is carried out in cooperation with the USDA Statistical Reporting Service. Other measures call for identification and documentation of commodity loss and damage at discharge ports, increasing grain storage capacity, improving the resistence and yield of barley strains, and reforestation activities.

Remnants of the Special Foreign Currency Research Program continue in Morocco. Morocco has one project (tomato diseases) under the SFCRP. Completion of this research project will end the SFC Program in Morocco.

Saudi Arabia

The Agricultural Affairs project covers a variety of different activities including soil mapping, range management, cadastral surveys, and the creation of a national park system. Because of the complexity of this project it is being subdivided into: (1) extension, (2) lands, (3) range and (4) parks. The USDA and the U.S. Department of Interior personnel cooperate on the various subprojects.

U.S. personnel are working on special development projects desired by the Ministry of Agriculture and Water. Activities include reviewing proposals presented by contractors, and advising on planning and monitoring projects, especially as they require skills in civil, mechanical, and agricultural engineering and irrigation technology.

U.S. personnel have assisted the Ministry of Agriculture and Water in their overall planning for development of the agricultural sectors. This includes developing a statistical capability for the gathering and analysis of agricultural data, preparation of market feasibility studies, and assisting in the training of Saudi counterparts.

A USDA scientist consulted with the Government of the Kingdom of Saudi Arabia to discuss preparations for a pilot project for date palm development. The final report contains recommendations for implementing a date production project.

A team of U.S. research scientists, along with scientists from the American University of Beirut, is assisting in developing the agriculture and water center. Personnel include scientists in disciplines related to crops, livestock, food science, soil, water, and chemistry plus administrative personnel. Land has been acquired for field research to further test laboratory results. Soil and water samples from various parts of the Kingdom are being analyzed.

USDA automated data processing personnel are assisting the Ministry of Agriculture and Water in the establishment of an automated Data Processing Center and Information System. This is a new activity initiated in 1980 and is expanding very rapidly.

The USDA is providing a Team Leader and an Administrative Officer to help coordinate the other activities within the Saudi Arabian Ministry of Agriculture and Water. A Manpower Development Officer is also assigned to assist in the placement of Ministry personnel in training programs in the United States. These programs include, both short- and long-term academic training, as well as observation visits by Saudi farmers. For example, during last year 15 Saudi date farmers spent 10 days in California observing all aspects of date production and processing. Saudi Arabia is considering building four large date processing plants and the Department will assist in facilitating this project. This year the Department assisted with the procurement of equipment for one bulk plant from Elliott Manufacturing Company, California.

The purpose of the U.S.-Saudi Arabia Joint Commission Training Program is to improve the technical competence of employees of the Ministry of Agriculture by organizing training programs in the United States. The programs include short-term observation tours, on-the-job training and placement of M.S. candidates in U.S. universities. Most of the training programs focus on arid land agricultural techniques, methods and research. Currently three Saudis are in the United States on short programs and 12 are studying for M.S. degrees. Approximately 20 more Saudis will participate in short programs during the spring and summer months of FY 1982.

Tunisia

Remnants of the special foreign currency research program continue in Tunisia. There are four active projects: bee diseases, cereal diseases, cereal genetics, and forest propagation. Completion of these research projects will end the SFC program in Tunisia.

During fiscal 1981, USDA provided the service of six resident technicians and a short-term technician from OICD, the Soil Conservation Service (SCS),and the Science & Education Administration (SEA) to improve forage and livestock production, agricultural extension, and utilization of by-products in Tunisia. The overall objective of this project is to develop the Tunisian Government's capability to reach the small livestock farmer with modern technology in forage production, feed utilization, and livestock management. In general, the team of agricultural experts is responsible for aiding the on-the-job training of a cadre of Tunisian technicians, in proper methods for production and utilization of forages and superior forage seeds.

The U.S. team is responsible for developing on-farm extension demonstrations concentrating on the proper utilization of available feeds and improved livestock management practices, to maximize production of milk and meat and thus farm income. The keeping and using of farm management records is also emphasized. The technicians teach the techniques and procedures for analyzing the profitability of different farm operations, and assist in the establishment of livestock project data collection and evaluation systems for the Tunisian National Livestock Officer.

The latest P.L. 480 Title I program for Tunisia included self-help measures calling for improvements in the distribution of sales points for fertilizers, pesticides and improved seeds, reinforcing agricultural credit, increasing the links between the extension service and research institutes, developing programs in soil conservation and handling capacity for basic agricultural commodities.

Turkey

The Turkish Ministry of Agriculture has expressed strong interest in developing a ministry-to-ministry agreement wiht USDA that would include both scientific exchange and technical assistance programs. OICD has discussed informally with Turkish Embassy officials the content of such an agreement. No formal proposal from Turkey has yet been received. Initial activities will be in crop forecasting and estimating methods.

SUMMARY OF OICD ACTIVITIES
SUB-SAHARA AFRICA

Africa

An OICD agricultural economist is assisting the regional affairs staff, AID/Washington, and AID missions in connection with Africa food grain research and related activities including training, extension, marketing, storage and intermediate technology.

USDA employees are providing a wide variety of assistance to AID in Washington and in the field under the Africa Development Resources project. Recent activities have included design of P.L. 480 Title III Food Aid Development programs, preparation of project papers, and development of programs to assist Uganda.

Botswana

Resident USDA technicians assisted by short term specialists serve as experts in the Ministry of Agriculture's Planning and Statistical Unit, advising the government on rural development needs while at the same time training Botswana to assume these responsibilities. The surveys and analyses prepared by the project are enabling the Government of Botswana (GOB) to improve agricultural sector productivity and total production.

A resident USDA technician assisted the Botswana Ministry of Agriculture to develop and expand programs in cereal crop production, with emphasis on sorghum, so that Botswana will have the institutional capacity to improve arid land crop production.

USDA supports group action projects through the development of appropriate strategy and techniques, and the provision of direct extension assistance to livestock owners under the Botswana Range and Livestock Management Project.

Cameroon

Four resident USDA specialists and supporting consultants are developing an Agricultural Economics and Planning Unit with the capacity to plan, design, and implement agricultural development projects within the Ministry of Agriculture's Directorate of Studies and Projects, and the Statistical Unit. The projects strategy is to use a multi-donor collaborative approach to Technical Assistance which develops local expertise in agricultural sector analysis and in planning, designing, implementing, monitoring, and evaluating projects for the rural sector.

A USDA conservationist assisted an International Bank for Reconstruction and Development project, advising on the use of shoreline common reed grasses to check erosion caused by wave action on a dike system.

Cape Verde

A USDA agricultural extension specialist, and a soil conservationist, are working with counterparts and technical teams to develop an appropriate-technology infrastructure to preserve and manage a watershed area in Cape Verde. The processes developed are expected to serve as a model for other portions of the islands, and elsewhere in the Sahel.

Ethopia

A USDA management specialist and an accounting officer provided assistance to the Desert Locust Control Organization for East Africa (DLCO/EA), in order to strengthen its operational and managerial capabilities.

Gambia

Under the Gambia Forestry Development Project, a USDA sawmill specialist helped finalize plans for procurement and installation of sawmill equipment.

A resident USDA conservation and management specialist is assisting in the establishment of a soil and water management unit within the Gambian Ministry of Agriculture and Natural Resources.

Ghana

The USDA is assisting the USAID-sponsored Economic and Rural Development Management Project in the preparation and implementation of management training seminars and workshops for regional and district level officals. Other functions include consultancy services to the districts on rural development planning and implementation, and the continuous adaptation of the training programs to meet local needs. Four technicians are currently on resident assignments, and a TDY will soon provide rural district level planning courses at the University of Kumasi. The key to this project's success has been its ability to combine and coordinate ministry and local resources and personnel.

Development Planning and Analysis staff recommended that the P.L. 480 Title I self-help agreement include rationalization of producer prices, increased availability of agricultural inputs, development of a data/information base, repair and improvement of local food and feed storage facilities, and improvements in the transportation infrastructure.

Guinea

The latest P.L. 480 Title I agreement with Guinea included self-help measures calling for increasing monetary incentives to small farmers, instituting a baseline study designed to generate crop reporting and economic data for domestic agricultural production, expending and upgrading market facilities and farm-to-market roads, and expanding rice milling and storage facilities at the village level.

Kenya

USDA resident technicians are working with the Kenya Agricultural Research Institute (KARI) to develop research and extension packages demonstrating the most productive use of marginal lands. Field trials are being conducted through farmer cooperators. The staff currently consists of an agrometeorologist, an agronomist, a soil physicist, an agricultural economist, a maize geneticist, and a plant pathologist. A senior maize geneticist is soon to join the team.

USDA provided support to selected East Africa Agricultural and Forestry Research Organization (EAAFRO) research efforts in food crops and cropping systems. This work is critical to an increase in food production and quality throughout East Africa. The project led into a new Dry Land Cropping Systems Research Project, designed to help Kenya make better use of her marginal agricultural lands. USDA is working with FAO to implement this project.

Resident technicians from USDA's Forest Service (FS) and Science and Education Administration (SEA), assisted by short-term personnel, worked with the Government of Kenya in alleviating or removing environmental, organizational, and managerial constraints to expansion of improved range management and conservation practices. Services included development of ground and surface water sources, construction of roads and tracks, and design of improved range management practices to permit support of increased livestock population.

Development Planning and Analysis staff recommended that the P.L. 480 Title I self-help measures support improved agricultural data collection and analysis, research activities and soil conservation programs.

Liberia

Two USDA agricultural training instructors presented a course in agricultural project implementation, designed primarily for middle-level managers having responsibility for project implementation. The emphasis was on skill development through a highly participatory learning-by-doing approach.

Two USDA Agricultural Economists assist and train staff of the Liberian Ministry of Agriculture's Planning Division in sector analysis and planning. Duties include improving statistical gathering and interpretation capabilities, and developing a capacity for micro-economics. These activities will be brought together using an agricultural sector analysis to encourage the integration process.

Development Planning and Analysis staff recommended that the P.L. 480 Title I self-help measure be used to initiate a rice price policy study and support the Agricultural Sector Analysis and Planning Project, research, extension and training activities, physical agricultural infrastructure, construction, and increased availability of credit.

Mali

A livestock advisor from the USDA Science and Education Administration assists the Sahel Development Regional Officer (SDRO) to coordinate and provide technical input for long-range planning of the U.S. Sahel Development Program. The Livestock Advisor is AID's technical liaison with the Club Du Sahel and contributes the livestock technical input to the formulation of AID strategy for assistance in the Sahel.

A Micro-biologist from the Animal and Plant Health Inspection Service (APHIS), USDA serves on resident assignment, advising and assisting the Central Veterinary Laboratory (CVL) in maintaining and augmenting the current level of animal disease diagnosis, and production of vaccine and diagnostic reagents. Assistance also has been provided in training on-site CVL technicians as an efficiently functioning team, proficient in handling the complex equipment. An expansion of the project is planned in Mali Livestock II.

Mauritius

The FY 1982 P.L. 480 Title I self-help measures for Mauritius will promote agricultural diversification without deterioration of sugar production, initiation of action to establish a land bank for food-crop producers, expanded marketing facilities, and strengthening of the National Integrated Food Strategy.

Nigeria

Pursuant to the U.S.-Nigeria Memorandum of Understanding, a Joint Agricultural Consultative Committee (JACC) has been formed. The purpose of this Committee, which represents American companies, agricultural cooperatives and foundations, and the Nigerian private and public sectors, is to facilitate private sector cooperation in agriculture and agribusiness between the two countries. Mr. Orville L. Freeman, former Secretary of Agriculture, serves as Chairman of the JACC.

Under the auspices of the U.S.-Nigeria bilateral economic talks held in September 1981 the Joint Working Group on Agriculture approved a total of 18 separate development projects for implementation. Assistance is required in the areas of fisheries, forestry, post harvest technology, range conservation and management, animal health and production, and soil conservation and croplands management. Training, both in the U.S. and in Nigeria, is a vital factor in these projects.

Working with Nigerian Soil Survey counterparts and technical teams, four USDA technicans are assisting in the preparation of a comprehensive soil survey map of Nigeria. The project will provide on-the-job training and equipment necessary to enable the Nigerian Ministry of Agriculture to continue the soil survey process following the completion of the USDA assignments. All costs of the project are being reimbursed by the Government of Nigeria (GON).

USDA sponsors scientific exchanges in stored products, insect research of sweet potatoes and the insect resistance of cowpeas.

Kansas State University and Ahmadu Bello University in Zaria, Nigeria, are engaged in the following activities: in-vitro parasitic cultivation; parasitic diseases; post-harvest losses; brush control, and increased sorghum production.

Rwanda

USDA in cooperation with an AID project providing support to regional organizations, provided two agricultural specialists to present a four-week seminar in Gisenyi, Rwanda. The program addressed the enhancement of women's roles in the development process, and the special problems faced by women who occupy command positions in predominantly male organizations.

Sahelian Countries

USDA is providing technical services to both the overseas missions and AID/Washington, to meet requirements of project and policy formulation, design, implementation, and evaluation in the Sahel. Technicians assist in the preparation of documents, and the evaluation of appropriate program-related activities for loan and grant projects. Examples of services provided in fiscal 1981 included a forester to work with the AID Mission in Niamey, a long-term agricultural economist to work with AID Washington in the review of projects, and a member of a Sahel regional project evaluation team.

A team of USDA specialists held a seminar in soil conservation for participants from the Sahelian countries. The seminar on Soil Protection and Restoration Techniques was designed to help each country plan and implement programs and projects. In particular, the program dealt with problems of soil erosion, declining soil fertility, loss of vegetative cover, and management of water resources.

Crop protection specialists from the USDA Animal and Plant Health Inspection Service (APHIS) provide assistance to the Sahelian countries of Senegal, Cape Verde, Cameroon, Guinea Bissau, Mauritania, and the Gambia in developing effective measures to protect crop production. Short-term assistance has also been provided by technicians from SEA and APHIS. The technicians worked with participants from each of the countries to improve the capabilities of national crop protection departments throughout the region.

Senegal

The self-help measures for the FY 1982 P.L. 480 Title III agreement with Senegal support the benchmarks of that agreement. They call for agricultural research, forestry, livestock management, irrigation development, and training of extension agents.

Somalia

The P.L. 480 Title I self-help measures recommended by Development Planning and Analysis staff are designed to serve as a bridge between Title I and the initiation of a Title III program in Somalia, reflecting the projects and programs that the Title III proposal will contain. The self-help measures emphasize food security, livestock production, research, extension, training, and improving Somalia's data/information base.

Development Planning and Analysis staff participated in an in-country analysis of the economic policies of the Government of Somalia as part of a three-person team. Recommendations were made on policy changes for use by the Mission and the Government, as a preliminary step in formulating a P.L. 480 Title III proposal.

The Somali Government has singled out the extension service as the agricultural institution most critically in need of training and technical assistance. The USDA is cooperating with AID to train farmers and extension workers in simple methods and to develop improved practices which can be applied by small farmers possessing limited resources. The USDA agencies have provided a host of short-term extension specialists, and a five-member team of long-term technicians. As the project nears completion, four of the five technicians are to return to the U.S. by late summer 1982.

Tanzania

The Training for Rural Development Project-Phase II, funded at $18.5 million by AID for six years, beginning early in 1982, seeks to improve the technical and managerial capabilities of village officials and technicians in order to contribute to agricultural growth, expand rural services and enhance self-help activities. Academic training in the U.S. is also provided to certain participants. USDA provided a resident technician under Phase I of the project. A second resident technician will soon join her. Phase II will also include a whole host of short-term assignments.

Development Planning and Analysis staff recommended that the P.L. 480 Title I program include a self-help measure supporting the Training in Rural Development Project managed by a USDA employee in residence in Tanzania. Another suggested measure calls for support of an impact evaluation of the 1974 Tanzanian Government policy shift to promotion of food crop production and away from its previous emphasis on export crop production. The Nutrition Economics Division has been participating in the monitoring of the evaluation.

The Tanzania Sterility Method for Tsetse Fly Control was initiated in 1962. It is one of the most successful overseas efforts undertaken by the USDA. A team of resident technicians worked in Tanzania for much of the 1970's. Current activities consist of monitoring and maintenance through the International Atomic Energy Agency, including laboratory operations and upkeep of facilities. It is expected that this work will be included in a larger, multi-donor, international African tsetse fly effort, by the end of fiscal 1982.

Upper Volta

Five USDA technicians will work in the classified forest at Dinderesso, near Bobo-Dioulasso. Three will serve as instructors at the school for forestry agents; the other two will be forest managers. The project is expected to provide a model for forest management and use for national forests throughout the Sahel.

A USDA resident technician will serve as Development Specialist under the Semi-Arid Food Grain Research and Development (SAFGRAD) project. His duties will include project coordination and planning among the varied participating groups, and the development of technical backstopping as needed.

Four USDA technicians participated in an extensive evaluation of the SAFGRAD project in Spring 1981, designed to analyze progress to date and recommendations for improved activities and organization. On completion of the evaluation, a detailed report was made to AID.

Zaire

The self-help measures for the P.L. 480 Title I program in Zaire emphasize research, extension, increased credit availability for small farmers and improvements in transportation infrastructure. One measure assigns the Zairean Department of Agriculture and the National University the task of reviewing current supply/distribution data in the agricultural sector and instituting a base line study designed to generate crop reporting and recording of input cost and marketing data.

Training to upgrade the statistical and data gathering capabilities, as well as the economic analysis ability, of Zaire's Ministry of Agriculture is being implemented by the International Training Division. This 5 year project focuses on training statisticians and economists at M.S. and Ph.D. levels as well as training management specialists through MBA programs.

A USDA resident agricultural economist, supported by others on temporary duty in Zaire, assisted the Government in planning, analyzing, and implementing public actions related to the agricultural sector, working to create an agricultural economic analysis and statistics gathering capability within the Zaire Ministry.

Zambia

The latest P.L. 480 Title I agreement with Zambia included self-help measures that called for a comprehensive review of maize producer prices and fertilizer subsidies, adopting a selective approach to the subsidization of agricultural inputs, and improving the accuracy of the agricultural data base and the timeliness of the publication of crop forecasts.

Zimbabwe

During the first Joint Working Group meeting held in July 1981, four ares of cooperative endeavors were identified:

> Study tours in crop research, soybean breeding, cotton agronomy, and dairy farming.
>
> Cooperative research and training in irrigation technology, range management, forage production, agricultural extension and project implementation.

Technical assistance in nematology, veterinary sciences, seed analysis and institution building.

Initiation of a visiting scholars programs.

We have been advised by the embassy in Zimbabwe to hold program implementation in abeyance pending a decision on the priority rankings of these activities.

SUMMARY OF OICD ACTIVITIES LATIN AMERICA AND THE CARIBBEAN BASIN

Argentina

An agreement on Scientific and Technical Cooperation was signed in May 1981 between the USDA and the Secretariat of State for Agriculture and the National Institute for Agricultural Technology (INTA). Programs of mutual concern include soil conservation, animal helath, economics and statistics, integrated pest management and germplasm exchange. About 35 students from Argentina are pursuing graduate degrees at U.S. agricultural universities. Placement of an additional 21 participants is pending. It is anticipated that 300 Argentine agriculturalists will receive training by FY 1986.

Brazil

A Scientific and Technical Exchange Agreement provides for examination of alternative energy sources. Other emphasis is on biological control of insect pests and research on control of animal diseases.

Caribbean Basin

Through the AID Regional Development Office in Guatemala, USDA has been assisting two regional organizations in agricultural research and extension systems development. At the Tropical Agriculture Center for Investigation and Science, the senior agricultural scientist has been assisting in the implementation of farming systems research. Through the Inter-American Institute of Agricultural Science (IICA), an agricultural education specialist, extension specialists, and an agricultural statistician have been assisting the six countries of Central America to improve their agricultural information and extension systems. This latter program came to an end in June 1981. Also, at the request of IICA, OICD is assisting this regional organization in designing and presenting brief training courses in team-building, managerial practices, organization development and agricultural trainer development. Future program activities in Central America are expected to include a continuation of assistance in the area of the agricultural statistics and a coffee rust control program. USDA is also providing short- and long-term technical assistance throughout the region on the topic of small farmer crop credit/insurance programs. In addition, OICD has been instrumental in gaining the support of international agencies, particularly FAO and IICA, in helping control African swine fever which has menaced herds in the United States as well as in Central America and the Caribbean.

OICD participation in the Caribbean Basin Initiative (CBI) includes active participation in several inter-departmental working groups and preparation and clearances of position papers. A paper entitled, "USDA and the Modernization of Agriculture in the Caribbean Basin," was prepared. It describes efforts currently underway plus efforts planned under the CBI. Many efforts include the cooperation of other USDA agencies. Elements of USDA's involvement in the CBI include: 1) some countries requested information on complying with U.S. plant and animal health and sanitary regulations; 2) animal disease eradication is to be continued and focused on African swine fever and Venezuela Equine Encephalomyeletis; 3) countries requested assistance in meeting U.S. standards for proper labelling and wholesomeness; 4) USDA has begun a role in facilitating the utilization of technical expertise of U.S. agribusiness and the formulation of joint ventures, provision of management expertise, and sale of U.S. capital goods; 5) USDA to provide additional opportunities for agricultural research and training; and 6) USDA has proposed focussed effort to coordinate the bilateral and multilateral aid by involving the World Bank and the Inter-American Development Bank.

Chile

An emphasis of the S&T Agreement is animal disease control. The success in Chile to control foot and mouth disease has application throughout the Western Hemisphere, and helps protect the U.S. livestock herds. Another project has examined control methods of insect pests. Soil conservation and soil management is also being addressed.

A four-country human nutrition project has unique application and benefit. In addition to Chile, the U.S., Mexico, and Brazil are cooperating in this project.

Colombia

Under an OICD linkage project, the University of Nebraska and Oklahoma State have combined in a collaborative undertaking with the Instituto Colombiano Agropercuario in Bogota, Columbia to: develop a technology base for expanding soybean production into non-traditional land areas; assess the effectiveness of research methodology and statistical techniques in evaluating cattle breeds and crosses used in Columbia, Nebraska and Oklahoma; and to determine the primary criteria involved in new technology adoption decisions by small farmers.

Costa Rica

Development Planning and Analysis staff recommended that the P.L. 480 Title I self-help measures in Costa Rica cover expansion of grain storage capacity, revision of pricing policies, strengthening of private sector controlled producers' associations such as the National Coffee Office and completion of a sample survey in preparation for an agricultural census.

Dominican Republic

The Animal Plant and Health Inspection Service (APHIS) is assisting in the eradication of African swine fever. Services provided include a project manager and TDY assistance in a broad range of subjects such as decontamination, epidemiology, laboratory science, entomology, and swine production. This project is of particular interest to USDA in that the presence of African Swine Fever in the

Dominican Republic and neighboring Haiti constitute a risk to the American swine industry. Under the continuing orchestration of OICD, plans are underway to extend the eradication program to Haiti. The project is now in its second phase aimed at restocking the swine herd with improved breeds of swine.

The Soil Conservation Service is assisting in a Training for Development Project. Under this project the Director of the Caribbean areas and the Deputy Director will be the lead instructors in a five-week course in soil conservation methodology. They will be joined by five other specialists, all from Puerto Rico, who will be providing hands-on practical experience in soil conservation methods. This is an initial phase of a soil conservation project supported by AID in the Dominican Republic in which the Soil Conservation Service may provide part of the technical assistance support for professionals of the Dominican Department of Soils and Water.

USDA is providing long-term technical assistance in natural resource economics to the multidisciplinary Resources Inventory and Analysis Unit of the Ministry of Agriculture in the Dominican Republic.

USDA provided long-term assistance to the Secretariat of Agriculture on the use of computer software packages for partial equilibrium analytical techniques and to conduct training courses sharpening the analytical skills of Secretariat personnel.

The P.L. 480 Title I self-help measures for the Dominican Republic support the program of training specialists in African Swine Fever detection sponsored by the USDA Animal and Plant Health Inspection Service, and funding of repopulation activities. Other measures support increased availability of credit for small farmers, expansion of agricultural storage facilities, reconstruction and improvement of the rural transportation network, reconstruction and improvement of irrigation facilities, and training in the execution of resource conservation programs.

El Salvador

USDA was requested to provide the services of an agricultural advisor to assist in providing small farmers in regions undergoing agrarian reform with timely and properly managed credit resources.

The self-help measures included in the FY 1982 P.L. 480 Title I agreement with El Salvador cover rationalization of producer prices, support for farmer credit, research and extension activities, and soil conservation activities.

Guatemala

USDA is assisting in small farmer production systems improvement in Guatemala. Under this program, a senior irrigation engineer under an agreement with Utah State assisted in the development of small-scale irrigations systems. In an earlier phase of the project, a soil conservation specialist assisted in the development of benchmark terraces which have had a significant impact on reducing soil erosion in Guatemala. The project also provides for the services of an agricultural planning economist. The economist has been responsible for making significant improvements in the planning and management of agricultural programs in Guatemala.

Resident and short-term technicians assisted the Ministry of Agriculture in improving its capacity to plan, program, and deliver improved technical assistance and other services to the rural poor target group.

Haiti

USDA is assisting the Soil Conservation Service of the Ministry of Agriculture, Natural Resource, and Rural Development in providing services to small farmers through the design, implementation, and maintenance of soil conservation and watershed programs. In Haiti, soil erosion and devegetation are serious problems contributing to low agricultural production. The implementation team consists of a senior conservationist and five additional team members in watershed management, soil conservation, plant materials, and soil science.

This project began in October 1980. A USDA resident technician is assisting the Division of Natural Resources of the Ministry of Agriculture launch comprehensive soil conservation projects in priority watersheds. Project activities focus on the organizational development of the Division of Natural Resources and in field operations - on-the-job training with restoration work in steep hillside farming units.

USDA provided two instructors for a four-week training course of Bureau de Credit Agricola credit officers in small farmer credit distribution and administration.

Efforts are underway also to extend the African swine fever eradication program from the Dominican Republic to Haiti in 1981. This will be in cooperation with IICA.

Development Planning and Analysis staff recommended that self-help measures include support for the program of eradication of African Swine Fever sponsored by the Animal and Plant Health Insepction Service and support for USDA Soil Conservation Service programs in Haiti concerned with soil conservation, watershed management and forestry.

Honduras

Honduras is the least developed country in Central America. Under five separate Participating Agency Service Agreements USDA is providing assistance for the development of agriculture in Honduras. These include the services of two agricultural economists who are assisting in the development of agricultural marketing and in project management in a variety of activities. In addition, a conservation specialist is assisting in the management of natural resources projects. Also, the Economics and Statistics Service's CRIES Program is active in Honduras and is expected to develop information on natural resources, natural resource regions, and initial planning, based upon these natural resources. These are completed by area frame sampling programs.

USDA provided a seven-man multidisciplinary team to assist in an intensive review of the constraints on and potential for forestry development in Honduras. The team worked closely with the Honduran Forest Development Corporation (COHDEFOR) to pinpoint problem areas in COHDEFOR's administrative structure and forest and wood-related industries.

USDA is providing the long-term assistance of a hydrologist to the Honduran Ministry of Agriculture to manage the implementation of an AID-funded Water Resources and Environmental Conservation Project.

USDA is providing long-term technical assistance in agricultural credit to USAID/Honduras and BANADESA in order to provide the small farmers with timely and properly managed credit resources.

Jamaica

In previous years, USDA/OICD has assisted in several projects related to agricultural planning in Jamaica. In 1981, OICD entered into an agreement (lasting through January 1986) to implement a major agricultural marketing project. This includes a four- to six-person resident team provided by the Agricultural Marketing Service which would be responsible for establishing an agricultural marketing agency in Jamaica. This agency would have the responsibility for the construction and supervision of agricultural terminal and regional markets, and the establishment and enforcement of agricultural produce grading and marketing regulations.

In 1981, USDA also provided the short-term services of two instructors for an in-country training course for Ministry of Agriculture personnel. The course was aimed at upgrading the capability of the Ministry to manage training of its personnel, collect and analyze data, and to use this expanded capability to plan for increased agricultural production.

USDA, through short-term assistance, is laying the groundwork for participation by the U.S. private sector in the revitalization of Jamaican agriculture. The project focuses on stimulation of U.S. agribusiness investment and trade with Jamaica, including the formulation of joint ventures, provision of management expertise and technology, and the sale of U.S. capital goods.

The latest P.L. 480 Title I agreement with Jamaica included self-help measures in the areas of training of agricultural extension agents; coordination of research, education and extension efforts directed at the small farmer; soil conservation and erosion control; and agricultural marketing. One measure provided for financial support of an analysis and evaluation of the nutritional impact and management efficiency of the Jamaican supplementary feeding program.

Mexico

The programs in Mexico are related to rural development and a more balanced agricultural posture. Current activity relates to efforts to increase crop and livestock productivity with broader programs underway to explore cooperatively better resource use of arid and semi-arid lands. A strong mutual interest has surfaced for developing new crops and in particular a joint cooperative effort to produce guayule, a substitute for rubber, that has strategic significance for the U.S. Longer-term proposals to be discussed in the future Working Groups include an examination of the farming systems approach and its relevancy to small farms -- a very important political issue with the Mexicans. Also, USDA plans special cooperation with CIMMITY in Mexico to strengthen small grains collection and wheat evaluation systems to broaden the U.S. germplasm base for the benefit of U.S. corn and wheat seed producers and plant breeders.

Peru

OICD and AID are cooperating to develop plans to send a Presidential Agricultural Development Task Force (Cancun Task Force) to Peru in early 1982. Focus of visit: marketing, private sector investment, business management, agricultural credit and agricultural research and extension.

The P.L. 480 Title I agreement with Peru included self-help measures that support research, extension and education activities in soil and water conservation practices, road construction, and private voluntary organization activities partially supported by Title II.

A S&T Agreement provided means of identifying germplasm of mutual interest. Other work on plant disease and research is also being conducted.

Puerto Rico and the Virgin Islands

Both Puerto Rico and the Virgin Islands have proposed that institutions be established to serve the research training needs of tropical agriculture for the benefit of the entire Caribbean region. Existing educational institutions in both areas point to the benefits of establishing such a center on U.S. territory to take advantage of linkages with the entire U.S. agricultural university system. Both Puerto Rico and the Virgin Islands have proposed that, in return for their cooperation with the Caribbean Basin Initiatives, such a research institution be established on their islands. OICD was asked to prepare USDA position memoranda on this issue for a meeting of the Task Force of Puerto Rico. USDA, through its own research organizations, and in concert with the land grant colleges, can play a useful role in advising both the hosts and financers of such a center. OICD has contacted AID officials who are looking into the feasibility of such a center.

Venezuela

Preliminary work is proceeding to evaluate a possible Presidential Agricultural Development Task Force (Cancun Task Force) to Venezuela in early 1982. At this time, a USDA team is in Venezuela exploring this possibility as part of increased cooperation in agriculture.

In Venezuela our agreement of cooperation has set the mode for joint efforts of both mutual interest as well as the vehicle for expanding the sale of technology with attendant long-term prospects. Venezuela, like Mexico, is a major oil producer for the U.S. and through our formal agreement, Venezuela has agreed to establish funds from its own sources to pay for technical assitance. Program areas include soil classification, animal sciences, including quarantine procedures, and statistical and economic exchanges.

Additionally, in response to interest expressed by the Director General of FONAIAP, detailed training options have been presented including U.S. short courses, short courses held in Venezuela, periodic consultation as part of an ongoing training development plan, and academic training in the United States, to which we are awaiting a reply.

A S&T agreement provides for research on tropic forest ecology and soil taxonomy.

SUMMARY OF OICD ACTIVITIES
EUROPE

Bulgaria

OICD has taken a leading role in developing exchange programs in the areas of tomato and vegetable production, sunflower production and dairy and beef cattle breeding and production. A group of American dairy and beef cattle experts traveled to Bulgaria in September-October 1981.

In May 1981 a USDA scientist consulted with the Sadoro Institute on multiplication of introduced samples of seed so that population structure could be maintained for cross-pollinated species. He also gave advice for methodology to deal with self-pollinated crop samples and advised on regeneration procedures.

Federal Republic of Germany (W. Germany)

Exchange activities were initiated in the Summer of 1981 after Secretary Block and Mr. Ertel, the German Minister of Agriculture signed an Agreement on Cooperation in Agriculture, Science and Technology in June. Program activities are in the areas of animal nutrition, storage protection, gasohol production, human nutrition, milk proteins in food products and agricultural economics. The next Working Group meeting will take place in January 1982. Because West Germany is a high technology country, we expect a moderate expansion of program activities in FY 1982.

Finland

In FY 1981, OICD supported exchange of scientists in the field of dietary intervention strategies. We do not anticipate any activities in FY 1982.

France

Current OICD activities in France are limited to an informal exchange of information correspondence and experts, pending the signing of a ministerial level MOU in the Spring of 1982. Potential areas of cooperation include remote sensing, waste utilization, animal welfare, pest control and human nutrition. OICD has already sponsored exchanges in the areas of leather research and air pollutant injury to crop plants.

Greece

Under the Ministry of Agriculture - USDA Memorandum of Understanding signed in June 1981, exploratory visits were initiated in post harvest technology, animal husbandry, germplasm exchange and pest control. Exchanges in the areas of forestry research, land resources and irrigation technology are expected to take place in 1983.

Hungary

OICD suppport makes possible cooperation in the areas of breeding and production of fruits, research in biological control of insect and weed pests, and the extension of near-infrared reflection technique as an inexpensive and rapid means of evaluating basic quality components of foods. A Joint Statement on Agricultural Trade and Cooperation, signed in 1981, provides the framework for these programs.

Italy

OICD cooperation with Italy was limited in FY '81 to the areas of post harvest technology and reproductive physiology of cattle and sheep. Further activities were suspended because of coordination and communication problems. OICD has been actively involved in resolving the pending almond tariff issue. A ministerial MOU currently under discussion would provide a framework by which trade and scientific cooperation issues could be resolved.

Netherlands

In FY '81, activities under the MOU of 1979 were carried out in the following areas: land use, poultry production, plant growth modeling, genetic engineering, forest research, feedstuffs, integrated pest management, greenhouse technology and soil sciences. A working level meeting with the Dutch Ministry is scheduled to formalize the 1982 cooperative program.

Poland

A U.S. - Polish Joint Board was established in 1974 under an agreement on Funding Cooperation in Science and Technology. Activities are being held pending the signing of a new agreement of scientific and technical cooperation that would provide funds from the Joint Board to support cooperative research projects.

In anticipation of a Joint Statement similar to others in East Europe, USDA and the Polish Ministry of Agriculture have established a program of scientific cooperation to improve the application of remote sensing technology to problems of crop monitoring and forest management. OICD has already sponsored an exchange of remote sensing experts.

Portugal

The OICD International Training Division completed a training implementation plan and conducted a training course in agricultural credit as part of the AID-funded Portuguese PROCALFER Project which promotes the use of limestone and fertilizers to increase agricultural production. As a follow-up, ITD will conduct five workshops in agricultural credit for extension agents concerned with farm management in addition to workshops for regional training coordinators within the Ministry of Agriculture.

An Agricultural Production Program is designed to increase the production capability of the country and strengthen institutions with funds made available through past P.L. 480 Title I sales programs. Agricultural policies are being studied and analyzed, the cost and effectiveness of transporting lime are being examined and the livestock is being appraised from the standpoint of improvements in genetics and nutrition.

Romania

The bilateral Working Group of Agriculture, established in 1977 by Joint Protocol, increases opportunities for the exchange of information and expertise in such areas as conservation tillage, swine production (where Romania has perhaps the most ambitious program in the world) and oilseed crops.

Spain

The 1976 "Treaty of Friendship and Cooperation between the United States and Spain" provides funds to support a program of agricultural research cooperation. OICD has responsibility for the research activities conducted by USDA and university scientists in cooperation with Spanish institutions and scientists. This program covers research in new areas of mutual interest including irrigation, plant protection, critical crops, fruits and vegetables, forestry, livestock diseases, meat production, agricultural economics, research methodology and administration.

Spain and the United States are negotiating a replacement to the 1976 Treaty. It is anticipated that a longer, more carefully-targeted cooperative research program will be instituted under terms of the replacement Treaty.

The first Working Group on Agriculture met in June 1981. Subjects of discussion were the pending MOU on S&T Cooperation and specific areas of cooperation between Spain and the U.S. including estimating, forecasting and reporting crop production, bio-energy and forestry.

U.S.S.R.

The S&T agreement between U.S. and U.S.S.R. is one of our oldest. It recognizes the importance of continuing cooperation with the Soviet Union, which has, perhaps, the largest research effort in agricultural science. However, current problems in diplomatic relations have interrupted the cooperative mechanism. FY '82 activities would be subject to the resumption of cooperative ties.

SUMMARY OF OICD ACTIVITIES
OCEANIA

Australia

The S&T Agreement provides for focus on pre- and post-harvest losses of wheat, a study on animal health for small ruminants, and examination of factors affecting zinc intake related to livestock health.

New Zealand

Cooperative activities are just getting underway with New Zealand. Initial technical exchanges are being explored in pasture grass research.

SUMMARY OF OICD ACTIVITIES
ASIA

Asia

The Asia Technical Services program provides funding for technical services of agricultural and/or rural development specialists to assist in the formulation, design and associated preparation of documentation for proposed projects, to assist with implementation and evaluation of on-going projects, and other appropriate program related activities of AID's Asia Bureau. The services of a rural development advisor have been utilized in Washington and Indonesia, and an agricultural economist assisted in Sri Lanka.

Bangladesh

The Food and Agriculture Organization (FAO) requested the services of a technician from USDA/Forest Service for a study of the uses of wood for heating and cooking in Bangladesh. This activity was followed by the development of a report with recommendations for procedures to increase the efficiency of wood utilization.

Nineteen Bangladeshis are currently studying for Ph.D. degrees at U.S. universities with funding from the World Bank. The International Training Division provides training and programming services to these participants through an agreement between OICD and the Bangladesh Agricultural Research Council. In FY '81 an additional four nonacadmeic participants took part in brief tours to study agricultural administration through field observation and formal instruction.

The benchmarks of the P.L. 480 Title III program for Bangladesh are supported by self-help measures that call for an expanded role for the private sector in production, processing, distribution and marketing of foodgrains, and policies fostering private sector investment in the cotton spinning industry. Other measures support research, extension services, improvement of the crop forecasting system, incentive-oriented procurement price policies, maintenance of a foodgrain reserve and phasing down the ration system.

The Bangladesh Government has recently completed its Second Five Year Plan (SFYP) setting a range of agricultural targets to be achieved by 1983/85. Most notable among SFYP targets is foodgrain self-sufficiency as detailed in the Medium Term Food Production Plant (MTFPP). While the MTFPP identifies a range of projects for achieving its targets, it provides less guidance as to how these projects rank in importance, relate to each other or should bephased in implementation. Also needed are clearly defined policy measures, e.g., input and product price policies, to be pursued in support of MTFPP execution.

USDA was requested to undertake an issues-oriented analysis of current and planned policies and projects in the context of the existing structure and dynamics of the sector and with regard to the Food Production Plan (FPP) and SFYP targets. The sector assessment will also identify further analytical study activities to take place after its completion.

Burma

The purpose of the Burma Maize and Oilseeds Production Project is to assist the Burmese to increase production of both oilseed crops and maize. This activity is viewed as the first step of a 15-20 year effort to increase agricultural production of selected key crops which will increase food supplies, consumption and producer earnings. A team was sent to Burma to design the production project and develop a draft project paper in FY 1981.

China

A program designed to provide 6 to 12 months of advanced training for senior level scientists from the People's Republic of China (PRC) is being administered by USDA and the International Science and Education Council (ISEC). Scientists study a variety of agricultural subjects at land-grant universities, with costs shared by USDA and the host institutions. A total of 20 scientists will receive training; 16 training opportunities have been secured so far. Six PRC scientists are currently studying in the U.S.

Reciprocal exchange visits in 1981 involved 24 exchanges in the following illustrative areas: medicinal plants, biological control of insects and pests, integrated pest management for trees, statistical systems, small watershed management, forest genetics and tree improvement, agrohydrology, and swine breeding.

Implementation agreements are under discussion for Joint Cooperative research projects in the areas of Pomology, Forest Genetics and Tree Improvement, Sediment Research and Saline/Alkaline Soil Improvement.

The International Training Division is assisting U.S. Land Grant Universities in placing approximately 20 PRC scholars.

Under the University Relinkage Project, Cornell University and Nanjing, China, Agricultural College are implementing their previously signed memorandum of understanding through joint efforts in genetics and plant breeding, crop protection, animal science, soil science and agronomy, rural economics and horticulture.

Penn State University and the South China Agricultural College at Canton, are studying energy conservation in poultry production; control of Northern Fowl Mite and other insect pests associated with poultry; as well as the possible introduction of new strains of breeding stock and methods of improving indigenous flocks.

University of Hawaii at Manoa in cooperation with the Chinese Academy of Agricultural Engineering Research and Planning, are working cooperatively in planning reclamation of saline soil on the north China plain.

India

The proposed medium irrigation project in Maharashtra required the assistance of an appraisal team to develop a feasibility report. A team of four specialists from USDA/Soil Conservation Service spent six weeks in India in 1981 reviewing representative projects. Recommendations were provided for organizational, technical, economic and social aspects of the program.

The Special Foreign Currency Research Program is concentrated in India and Pakistan. The cooperative agricultural research program has been an excellent investment that has yielded beneficial returns to the United States and many countries throughout the world. The Far Eastern Regional Research Office in New Delhi administers the Asian grants for IRD/OICD. It is a valuable tie between USDA and Indian scientists and institutions. Since the beginning of the program, 440 grants have been completed in the Indian SFC Research program. Forty grants are currently active.

Indonesia

The five-year $5 million Indonesia Professional Resources Development Project II, funded by AID and managed by USDA, includes on-site training for up to 8,000 Indonesians and 194 academic and eight nonacademic person-years of training in the U.S. The project objective is to train officials in the Ministries of Agriculture and Education who plan, implement, manage and evaluate rural development projects. Two resident USDA technicians are assisting the Government of Indonesia in the development and refinement of long-range training programs.

OICD has an agreement with the Government of Indonesia to program M.S. degree candidates and provide technical training through USDA short courses to almost 30 people participating in Indonesia's National Food Crop Extension Project.

A Project Paper design team was able to review various cropping systems and prepare a list of recommendations for a secondary food crops project. The production of food crops such as rice, corn, soybeans, peanuts, cassava, mung beans and sweet potatoes were included as alternatives. Site specific cropping patterns were outlined in conjunction with the crops or combinations of crops to be grown for each season of the year.

The FY 1982 Title I self-help measures for Indonesia call for the establishment of cooperative collection points for farm commodities as a means of improving the marketing infrastructure and development of groundwater irrigation.

Japan

The first U.S.-Japan Joint Committee on Science and Technology met in September 1981. The Working Group on Agriculture discussed current programs in snow and avalanche management, landslide prediction and control, forest diseases, biomass production, pest management and salmonella control. FY '82 activities will be in the areas of biomass conversion, post harvest technology, biotechnology, and plant breeding and genetics.

The Department has participated in the U.S.-Japan Cooperative Program in Natural Resources (UJNR) continuously since the program was initiated in 1964. OICD is responsible for the U.S. coordination of the 10 panels that comprise the non-marine activities of the UJNR cooperative program. The program has proven to be of much value to both countries.

The USDA currently chairs five of the following 10 non-marine U.S. panels: Conservation, Recreation and Parks; Earthquake Prediction

Technology; Fire Research and Safety; Forage Seeds (Germsplasm); Forestry; Mycoplasmosis; Protein Resources; Toxic Micro-Organisms; Water Research Technology; and Wind and Seismic Effect. Other panels are chaired by scientists in the U.S. Department of the Interior, U.S. Department of Commerce, and the U.S. Geological Survey.

Each panel endeavors to hold a joint meeting once a year to plan its activities, which may include exchanges of information, personnel, equipment, experimental material, and results of research, and to discuss accomplishments. The UJNR holds a conference every 3 years alternately in Tokyo, Japan, and Washington, D.C. to review and examine ongoing cooperative activities and to study proposals for new cooperative efforts.

The Tenth Plenary Conference of the U.S.-Japan Conference on Natural Resources Development met in Washington October 29 and 30, 1981, with delegations representing Japan and the United States.

Korea

Cooperation with Korea is just getting underway. Initial technical exchanges are in the areas of soil conservation and appropriate technologies in agriculture. A ministerial MOU is currently under discussion and expected to be finalized by early Fall, 1982.

Malaysia

The goal of the five-year Malaysia ASEAN Plant Quarantine project is to improve the capability of plant quarantine personnel of the Association of South East Asia Nations (ASEAN). It is primarily an institution building effort which supports member countries' commitments to improve plant quarantine services. The technical assistance is being provided through USDA/APHIS as well as the university community. One resident advisor is in Kuala Lampur.

Nepal

Trainers were supplied to conduct USDA's Agricultural Trainer Development Course for agriculture and rural development training personnel in Nepal beginning in December 1980. To date over 50 participants have been trained. It is anticipated similar follow-up activities will be undertaken through 1983.

Under the Nepal Rural Area Development project, a slide stabilization engineer and an engineering geologist worked on short-term assignments to prescribe restorative measures for stabilizing slides which have been developed along the recently constructed Western Hills Road. The proposed system was technically and economically appropriate for implementation in Nepal, taking into account the construction equipment already on the project, and that which may be made available from within Nepal.

Pakistan

The International Research Division's Special Foreign Currency Program is concentrated in India and Pakistan. This program is designed to conduct research abroad of direct benefit to U.S.

agriculture. Seventy-five research projects in Pakistan encompassing all phases of agriculture research are currently active. About $5 million equivalent in foreign currency is expended each year for these research programs.

The Pakistan Agricultural Research project began in 1975 with objectives of assisting the Pakistan Agricultural Research Council (PARC) in the formulation and execution of a national multidisciplinary research program. A resident technician assisted PARC for two years, and several short-term technicians have reviewed the agricultural research program in an effort to better integrate new goals and directives into the existing system. A long-term research station advisor will be at post by the third quarter of 1982.

The Pakistan Onfarm Water Management project was initiated in 1974 and completed in 1981. Resident and short-term USDA technicans assisted the Government of Pakistan in all aspects of the technical and operational function of an onfarm water management program. Technicans provided advisory services in precision land levelling methods, watercourse reorganization and improvement, including demonstrations to farmers showing how the production increase can be realized through precision land leveling coupled with the adoption of improved agronomic practices.

Development Planning and Analysis staff recommended inclusion in the P.L. 480 Title I agreement with Pakistan the following self-help measures: promoting price policies that allow farmers an adequate return, calling for a phasedown of the ration system, and supporting expanded storage capacity for wheat and edible oil.

A long-term study will be undertaken which will assist the GOP and USAID/Pakistan in examining the policy and institutional characteristics related to the edible oil industry. It is estimated that in 1982, edible oil import requirements for Pakistan will be about $300 million to meet domestic demand. There is general recognition that edible oil programs in Pakistan have been constrained by policies which have not created the appropriate environment to best serve the needs and resources of the private and public sectors. This has been further compounded by an inconsistent policy and operational framework. There will be a resident project coordinator to oversee activities of several short-term teams.

Philippines

The Philippine Ministry of Agriculture has expressed strong interest in developing a ministerial MOU with USDA. USDA agencies and U.S. universities have expressed interest in a wide range of scientific areas. Initial exchanges include post-harvest technology, cassava production and appropriate technologies.

Sri Lanka

Under the Sri Lanka Forest Products Laboratory/Solar Kiln, two USDA/Forest Service technicians from the Forest Products Laboratory were detailed in 1981 to assist personnel of the Government of Sri Lanka in the design and erection of a 1,000 board foot prototype solar kiln. They also established drying schedules of the different species of timber that required drying.

The latest P.L. 480 Title I agreement with Sri Lanka included self-help measures which called for development of an integrated national agriculture-food-nutrition study in basic foods, carrying out research studies covering agricultural marketing, distribution of agricultural commodities, and improving resources management practices.

Thailand

The Thailand Agricultural Planning project is designed to strengthen the capabilities of the Thai Office of Agricultural Economics (OAE) to carry policy, problem identification and analysis, planning, data management and integrated project preparation functions. An area frame sampling and remote sensing specialist from the Statistical Reporting Service and a budget systems specialist have been assisting in the early stages of the project.

Under the Community Development project, a resident specialist is assisting the AID Mission in agricultural project planning, and evaluation of USAID/Thailand activities. He is responsible for providing recommendations to agricultural development officers on matters of policy, project design and implementation in relation to overall management and improved production of field crops.

OICD and AID are cooperating to develop plans to send a Presidential Agricultural Development Task Force (Cancun Task Force) to Thailand in early 1982. Focus of the visit is marketing and domestic agricultural policies.

SELECTING COUNTRIES FOR OICD INVOLVEMENT

Question: What determining factors do you use in selecting countries with which to become involved, either to provide training or assistance, or to engage in cooperative programs?

Answer: The Scientific and Technical Exchange Division's approach toward developing cooperative programs with countries is to carefully analyze the current economic and political posture toward the U.S. and to critically review the capability of the country to respond professionally and financially under the proposed agreement of cooperation.

The mutuality of interests and benefits are major criteria that must be met under our agreements. We consider mutual benefits to include cost sharing of programs, access for participants, joint research possibilities, sale of technology, spin-off of commodity sales from technology exchanges, integration of quality control and regulatory activities, development of new crops, and more timely economic data.

Our agreements are not designed to commit us to a specific number of activities or funding levels. Rather, these agreements are more indicative of targets of opportunity and allow a more discreet opportunity to work with counterparts where the possible returns are the highest.

The Technical Assistance Division selects only those projects for which the Department has a unique capability and capacity to perform an efficient and effective job. Several criteria are examined in country and project selection: the host country's government stability; the compatibility of the proposal with U.S. policy; the extent to which USDA involvement in the project would improve trade opportunities and benefit U.S. farmers; and the extent to which the host country is truly interested and sincere in its efforts to develop agricultural components of the national economy.

The International Training Division, ITD, does not always select the countries with which it cooperates in international agricultural training activities. Instead, ITD responds to requests for training assistance from various organizations, including the Agency for International Development (AID), the United Nations' Food and Agriculture Organization (FAO), the World Bank, foreign governments, other U.S. Government agencies, and related international development organizations.

EXCHANGES WITH CHINA

Question: What is the current status of exchange with the Peoples' Republic of China? Please provide for the record planned exchanges during fiscal year 1982 and 1983?

Answer: The U.S. Department of Agriculture is in its fourth year of scientific and technical exchanges with the People's Republic of China. The purpose of the Understanding on Agricultural Exchanges, which became part of the U.S.-PRC Agreement on Cooperation in Science and Technology, is to provide a government-supported mechanism for developing and facilitating a broad interchange of scientists, scholars and agribusiness interests. To initiate and implement activities, the two sides meet annually in alternate capitals under the aegis of a Joint Working Group on Agricultural Cooperation to plan new or continued programs for the year.

The program for 1982 will use the knowledge gained from exchanges carried out since 1979 and will develop new areas of cooperative activities. Twenty-four program areas were agreed upon at the Third Joint Working Group Meeting. These program areas will be provided for the record.

In order to further strengthen U.S.-PRC agricultural scientific and technical cooperation, both sides agreed that in 1982 cooperative study should be expanded in the following areas: forest genetics and tree improvement; erosion and sedimentation technology; saline-alkaline soil improvement; evaluation of germplasm in swine; and natural enemies of gypsy moth.

Both sides agreed that one of the important channels for developing scientific and technological exchanges would be the sending of their scientists to participate in jointly or unilaterally sponsored scientific symposia. Both sides agreed that a soybean scientific symposium would be jointly held in the U.S. in 1982. Plans are now underway to hold the symposium in August at the University of Illinois.

Planned U.S.-PRC activities for 1983 will be channeled through the Fourth Joint Working Group. To prepare for this meeting, the Department is working with the university community, through the International Scientific and Exchange Council, to solicit proposals which meet long-range scientific plans of the eight working panels: plant protection and production; mechanization and structures; land and water; forestry; food technology and nutrition; economics, statistics and planning; animal science and health; and agricultural administration and education. After a selection process takes place, the U.S. then presents approved activities to the Chinese for negotiation.

In addition to the research and exchanges carried out with China, OICD also conducts a University Linkage program. This program consists of 3-year projects encompassing collaborative research and exchange of personnel in such fields as poultry science, horticulture, integrated pest management, soil science, animal science, and plant genetics. Professors and researchers from several institutions will continue their exchanges in FY 1982 and FY 1983.

U.S. Exchange Teams to the PRC

- Evaluation of Germplasm in Swine
- Natural Enemies of Gypsy Moths
- Integrated Pest Management
- Forest Genetics and Tree Improvement
- Agricultural Forecasting and Area Sampling Farm Development
- Agricultural Investigation
- Flood Control and River Basin Planning
- Biomass Energy
- Management of Arid Grazing Lands
- Integrated Management of Post-Harvest Losses
- Management and Organization Technologies of Youth Programs
- Transportation of Agricultural Goods

PRC Exchange Teams to the U.S.

- Agricultural Investigation
- Tree Improvement
- Soil Survey
- Grain Science and Grain Industry Education
- Forest Protection and Fire Prevention Techniques
- Production and Use of Virus Insecticide
- Agricultural Economy
- Planning and Management of Hydraulic Engineering
- Viral Diseases of Vegetables
- Big Horsepower Tractor Production
- Prediction for Yield of Agricultural Products

BENEFITS TO U.S. AGRICULTURE

Question: How have such exchanges benefitted United States agriculture?

Answer: The expenditure of appropriated funds for scientific and technical exchanges has improved access by U.S. companies to markets and has enhanced long-term sales of agricultural commodities. For example, one purchase alone of $3 million worth of tractors, by the Chinese, has already offset the cost of the program. As a result of a visit by a PRC Grain Storage team, an agreement has been signed for further purchases of combines. A contract was negotiated with Ford whereby the PRC will manufacture parts for tractors purchased in the U.S.

- Chinese soybeans are richer in protein than domestic types. Past and continued exchanges of information and germplasm should result in improved yields leading to increased soybean trade.

- Discovery of natural enemies could allow the U.S. to reduce reliance on toxic insecticides and pesticides. Potential natural enemies have been brought to the U.S. by members of exchange delegations and are currently under study.

- The U.S. Medicinal Plants delegation returned from China with samples of several native Chinese plants that have potential use as anti-cancer drugs.

- U.S. scientists have observed different forms of intercropping in China which lead to greater crop yields due to less loss of valuable nutrients in the soil and reduced numbers of pests.

- The exchange of germplasm encourages research that will lead to the genetic diversity needed to ensure yields in crop production and resistance to disease.

- A Chinese-developed vaccine for equine infectious anemia virus has created excitement among U.S. scientists long thwarted in their efforts to combat this and other slow virus infections.

- Successful reforestation in China - which has increased its forested land from 8.6% of total area in 1946 to 12.7% in 1979 and is expected to reach 22% by 1982 - is of interest to U.S. scientists hoping to step up reforestation here.

- The swine genetic resources of China offer a potential of increasing the average number of pigs per litter. Higher numbers of pigs slaughtered as a percentage of animals in the breeding herd will result in increasing pork output with a reduction in the size of the breeding herd, which is of clear interest to both producers and consumers in the U. S.

SPECIAL FOREIGN CURRENCY RESEARCH

Question: You are requesting a sizeable increase of $2,570,000 for Special Foreign Currency Research. I understand this is to be used to restore programs, especially in India and Pakistan, that were cut due to last year's reductions. What are the problems involved, and why is there such urgency attached to them?

Answer: The $2,570,000 request for FY 1983 is a reinstatement of this long-standing program, although it appears as an increase in the presentation. The current request represents half the funding level needed to support research and translations overseas that directly contribute to U.S. agricultural problem areas. The Department carefully studied the SFC program after the Congressional action deleted the appropriation in FY 1982. It was found that the agencies cooperating with the program (Agricultural Research Service, Forest Service, Economic Research Service, Animal and Plant Health Inspection Service, Soil Conservation Service, and the National Agricultural Library) strongly affirmed the cost effectiveness and benefits derived. Also, the special nature of the expenditures were determined by OMB not to affect total Government outlays, and, therefore, reductions do not influence agency outlay ceilings.

The highest priority research problem areas are listed on page 170 of the Explanatory Notes. American agriculture sees these research subjects to be of great utility in removing economic barriers to increased farm and forest productivity. Conducting the studies where these crops have been cultivated for thousands of years gives our U.S. scientists an opportunity to identify biological control agents for insects and weeds or identify new genes in plants which could significantly enhance crop productivity.

QUESTIONS SUBMITTED BY SENATOR EAGLETON

TRAVEL COSTS

Question: I noticed from your justification materials that an inordinately large percentage of your budget is used to pay travel costs. Please explain why this is the case.

Answer: OICD was established by the Department to carry out its policies and programs concerned with cooperative international agricultural research and scientific exchange, and to assist developing nations in improving their institutional capablilities in agricultural production and rural development to combat hunger and malnutrition. The very nature of this work requires extensive travel to all corners of the world.

To carry out these international programs, we utilize a variety of funding souces, including direct appropriations, excess foreign currencies, reimbursements from the Agency for International Development, funds from international organizations, and advance funds from developing countries. These funds are used, in part, for the continued international scientific and technical cooperation that can only be achieved by being able to send U.S. scientists abroad and supporting counterpart scientific delegations coming to the U.S. What we spend on travel serves as a program catalyst. Each dollar spent is more than matched by the contributed salaries and support costs by the participating organizations. Additionally, many of our large exchange programs are funded on a receiving-side-pays basis in which the participating foreign government pays for all the in-country expenses of visiting U.S. scientists while meeting with their counterparts.

We are aware of the pressure to reduce government travel and accordingly are very selective in the utilization of our travel funds. However, because of the level of participation that our travel funds generate and the subsequent benefits of that participation to the U.S. and U.S. agriculture, we feel that it is money extremely well spent.

ASSISTANCE TO FOREIGN STUDENTS

Question: When USDA assists foreign students who want to study in this country, is there a formal selection process which determines where the students will be located, at what university? What is the process?

Answer: A request to design and organize a training program for a foreign agriculturalist is assigned to an International Training Division (ITD) program specialist. The specialist has appropriate expertise in the same or a related field of agriculture as that in which the participant will receive training. Through a careful selection process, which incorporates consideration of many factors and input by the sponsoring organization, the program specialist determines where the participant will be trained.

Training requests for AID-sponsored participants, Project Implementation Order/Participants, are generated by AID Missions throughout the world and outline the participant's training objectives, such as field of study, degree, special coursework, and practical field work. The requests generally specify the university or universities to be approached for admission. The program specialist honors these suggestions, unless the university selected is clearly not the best choice. This also holds true for training requests received from FAO or other organizations which also specify the university(ies) to be approached for admission.

If time permits and it appears that the participant will not be difficult to place, only one university at a time is approached for admission. Due to the amount of time necessary to process a foreign student's admission, most universities are willing to do so provided a number of schools are not approached simultaneously. The program specialist forwards copies of the participant's transcripts, English language test scores, and other examination scores, such as the Graduate Record Examination (GRE), if required, to the school for evaluation. AID completes a Credential Analysis Worksheet, CAW, for each participant it sponsors. This helps the university to interpret the participant's academic credentials.

The university informs the program specialist of its decision on admitting the participant and, if affirmative, the specialist advises the sponsoring organization of the acceptance and entry date. Final arrangements for travel, visas, housing, etc. are then made.

A number of other important factors, besides the sponsoring organization's choice of school, are involved in the placement process. The most important criterion is which university can provide the best training to fulfill the participant's educational objectives.

The participant's academic qualifications figure strongly in the selection of a university. If a student's grades are borderline and he/she attended a less competitive university, chances of being admitted to a U. S. university with high academic standards and a demanding curriculum are slim. Some schools require certain GRE and English language test scores. Program specialists take agronomic considerations into account when selecting a university. For example, if a participant is to study crop production in an arid environment, a school in the southwest will be approached for admission. A university's relationship, if any, with the participant's home country or agricultural experience in certain geographical regions of the world is also considered.

Timing and entrance dates are crucial factors. Some schools may not admit students at any time other than the fall term, for example. Finally, in placing a participant at a university, a program specialist will generally overlook those schools from which he/she receives little cooperation. Program specialists seek to place foreign agriculturalists in those schools willing to work closely with them to ensure that their training is worthwhile, fulfills their educational objectives, and will be relevant to their home country's agricultural development needs.

FY 1983 PROJECTS

Question: Please provide a list of projects you intend to undertake in FY 1983 and any cooperative U.S. institutions which would be involved in these projects.

Answer: We will provide the information for the record.

INTERNATIONAL TRAINING DIVISION

At this point in time we cannot provide a list of projects ITD will undertake in FY 1983. However, based upon historical data, it is anticipated that ITD will coordinate training programs for approximately 2,000 foreign agriculturalists, with one half beginning study during FY 1983. ITD will coordinate with approximately 90 U. S. land-grant and other universities in implementing both academic and non-academic training programs. ITD currently cooperates with the following universities and anticipates continuing these relationships in FY 1983:

ALABAMA

Auburn University
Alabama State Agricultural and Mechanical University (Ala. A & M)
Tuskegee Institute

ARIZONA

University of Arizona

ARKANSAS

University of Arkansas, Fayetteville
University of Arkansas, Pine Bluff

CALIFORNIA

Univ. of California, Davis
Univ. of California, Berkeley
Univ. of California, Riverside
Univ. of California, San Luis Obispo
California State University, Chico
California State University, Fresno

COLORADO

Colorado State University

CONNECTICUT

University of Connecticut

DELAWARE

University of Delaware

FLORIDA

Florida Agricultural and Mechanical University

GEORGIA

University of Georgia
Fort Valley State College

HAWAII

University of Hawaii

IDAHO

University of Idaho

KENTUCKY

University of Kentucky

LOUISIANA

Louisiana State University
Southern University

MAINE

University of Maine

ILLINOIS

University of Illinois
Southern Illinois University
Western Illinois University

INDIANA

Purdue University

IOWA

Iowa State University

KANSAS

Kansas State University

Nebraska

University of Nebraska

NEVADA

University of Nevada

NEW HAMPSHIRE

University of New Hampshire

NEW JERSEY

Rutgers University

NEW MEXICO

New Mexico State University

NEW YORK

Cornell University
State University of New York, Syracuse

NORTH CAROLINA

North Carolina State University
North Carolina Agricultural and Technical State University

NORTH DAKOTA

North Dakota State University

OHIO

Ohio State University
Ohio University

OKLAHOMA

Oklahoma State University
Langston University

OREGON

Oregon State University

PENNSYLVANIA

Pennsylvania State University

RHODE ISLAND

University of Rhode Island

SOUTH CAROLINA

Clemson University
South Carolina State College

SOUTH DAKOTA

South Dakota State University

TENNESSEE

University of Tennessee

TEXAS

Texas A & M University
Prairie View Agricultural and Mechanical University
Stephen F. Austin State Univ.
Sam Houston State University
Texas Tech University
West Texas State University

UTAH

Utah State University

VERMONT

University of Vermont

VIRGINIA

Virginia Polytechnic Institute

WASHINGTON

Washington State University

WEST VIRGINIA

West Virginia University

WISCONSIN

Univ. of Wisconsin, Madison
Univ. of Wisconsin, River Fall

WYOMING

University of Wyoming

TECHNICAL ASSISTANCE DIVISION

The Technical Assistance Division cooperates with U.S. universities in the conduct of agricultural research programs, as indicated:

Agricultural Production Program, Portugal --	University of Arizona Utah State University Purdue University North Dakota State University
Drylands Cropping Research, Kenya --	Virginia Polytechnic Institute and State University
Agricultural Planning, Botswana --	Colorado State University

There are many projects initiated prior to FY 1983 that will continue throughout the fiscal year and conceivably will involve other U.S. institutions which cannot be readily identified at this time.

INTERNATIONAL RESEARCH DIVISION

The Special Foreign Current Research projects to be undertaken in FY 1983 are listed on page 170 of our Explanatory Notes. Also, the International Research Division, IRD, administers collaborative research projects that link U.S. Universities with institutions overseas. Currently, 12 U.S. universities and counterpart institutions in Brazil, the People's Republic of China, Nigeria, Colombia, and Mexico are involved in these projects as follows:

1. University of Hawaii and Academy of Agricultural Engineering Research and Planning, People's Republic of China, "Large Scale Agricultural Production Systems Planning."

2. University of Nebraska/Oklahoma State University and Colombian Agriculture Institute, Colombia, "Research Collaboration: Agronomy, Animal Science, Agricultural Economics, and Agricultural Engineering."

3. Cornell University and Nanjing Agricultural College, People's Republic of China, "Research Collaboration: Plant Genetics, Crop Production, Animal Sciences, Soil Sciences, and Agronomy."

4. Purdue University and Federal University of Vicosa, Brazil, "Research Collaboration: Energy, Soils, Plant Production, Animal Production, Food Processing and Human Nutrition, and Agricultural Economics."

5. The Pennsylvania State University and South China Agricultural College (SCAC), People's Republic of China, "Research Collaboration: Poultry Production, Vegetable Production, Integrated Pest Management."

6. Southern Illinois University and Federal University of Santa Maria, Brazil, "Research Collaboration: Forages, Swine Production, Sweet Corn, Fish Production."

7. Kansas State University and Ahmadu Bello University, Nigeria, "Agricultural and Veterinary Medicine Research."

8. Ohio State University and College of Agriculture of the University of Sao Paulo, Brazil, "Research Collaboration: Alcohol Production, Sugar Waste Treatments, Whey Utilization, Child Development, Forages, Vegetable Seeding, Nematology, Fruits and Vegetables, and Corn Leaf Diseases."

9. Texas A&M University and Instituto Tecnologica y de Estudios Superiores de Monterrey and Escuela Superior de Agricultura "Antonio Narro," Mexico, "Insect Pest Management."

10. Rutgers University and National School of Agriculture, Chapingo, Mexico, "Biological Control of Soilborne Plant Pathogens with Antagonistic Microorganisms."

11. University of Arizona and Federal University of Ceara and Bank of Northeast Brazil, "Energy Research in Northeast Brazil."

12. University of Missouri and the National Institute of Animal Research, Mexico, "Cooperative Research on Pseudorabies in Swine."

Research projects conducted under the auspices of the U.S.-Spain Treaty of Friendship and the U.S.-Israel Binational Agricultural Research and Development Fund are not supported by appropriated funds.

SCIENTIFIC AND TECHNICAL EXCHANGE

The Scientific and Technical Exchange activities planned for FY 1983 are designed to meet Department interests and priorities. Program efforts are intended to produce visible benefits to the agricultural community; to develop a better mode of collaboration and integration of private sector interests; and to respond to political and strategic interests of the U.S.

For FY 1983, we plan to work more specifically on selective country targets, particularly those that complement the Secretary's goals. China will continue to maintain the highest profile. In China we will emphasize further collaboration on soybeans and expect this will be developed from our soybean symposium held at the University of Illinois in FY 1982. We will continue the thrust in swine research and germplasm exchanges. We are also beginning discussions for associating STE programs more closely with improved access for the U.S. private sector.

The Mexican program will concentrate on arid land programs, new crops, and germplasm collection. We have also sensed an interest by the Mexican side in food technology and marketing. We are also generating agency responses to this observed Mexican initiative and will work closely with USDA agencies, universities and the private sector in addressing such needs.

Programs in Western Europe - France, Germany, Netherlands, and Italy have reached the fine tuning stage. In the Netherlands we are reaching out to develop a program of exchanges on new milk products.

France has indicated a desire to extend cooperation in remote sensing, studies of air pollution effects on crops, and leather research. Germany has explored with us possible technology exchange on alternate uses of energy and more explicit studies on meat processing technologies.

Programs in Africa, Nigeria and Zimbabwe reflect linkages of science and technology exchanges to producers of U.S. agricultural technology. Our seed money used in exchanges in FY 1982 should lead to reimbursable programs and to possible sales of U.S. technology and commodities.

Australia and New Zealand programs are both keyed to U.S. interest in nitrogen fixation plants and legumes. We expect a broader, more explicit range of possible topics to emerge after our dialogue with Australia in May of this year.

Specific Latin American countries - Argentina, Chile and Brazil have agreed to ongoing activities in conservation, crop forecasting and statistics, and animal health problems. We expect that Venezuela will request reimbursable technical support in marketing and storage problems.

The Universities that will possibly be included in these activities are:

University of Illinois
Texas A&M
University of Arizona
Utah State University
University of Guam
University of Hawaii
Penn State
Auburn University
University of Georgia
Michigan State University
University of Maryland
Arizona State
University of Kentucky
University of Missouri

SUBCOMMITTEE RECESS

Senator COCHRAN. This concludes the business of the subcommittee today. Our next session will be on Thursday morning, April 1, at 9:30 a.m. in this hearing room. At that time, we will hear from the Commodity Futures Trading Commission, the USDA Inspector General's Office, and the General Accounting Office. Until that time, the subcommittee stands in recess.

[Whereupon, at 11:40 a.m., Tuesday, March 30, the subcommittee was recessed, to reconvene at the call of the Chair.]

AGRICULTURE, RURAL DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1983

THURSDAY, APRIL 1, 1982

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, D.C.

The subcommittee met at 9:30 a.m., in room 1318, Everett McKinley Dirksen Senate Office Building, Hon. Thomas F. Eagleton presiding.

Present: Senators Eagleton and Chiles.

DEPARTMENT OF AGRICULTURE

OFFICE OF THE INSPECTOR GENERAL

GENERAL ACCOUNTING OFFICE

STATEMENTS OF:

JOHN V. GRAZIANO, INSPECTOR GENERAL, OFFICE OF THE INSPECTOR GENERAL, DEPARTMENT OF AGRICULTURE

HENRY ESCHWEGE, DIRECTOR, COMMUNITY AND ECONOMIC DEVELOPMENT DIVISION, GENERAL ACCOUNTING OFFICE

ACCOMPANIED BY:

ANTHONY J. GABRIEL, DEPUTY INSPECTOR GENERAL, USDA

GERALD W. PETERSON, ACTING ASSISTANT INSPECTOR GENERAL FOR AUDITING, USDA

THOMAS J. BURKE, ACTING ASSISTANT INSPECTOR GENERAL FOR INVESTIGATIONS, USDA

DELMAS R. THORNSBURY, DIRECTOR, MANAGEMENT AND BUDGET STAFF, USDA

BRIAN CROWLEY, SENIOR ASSOCIATE DIRECTOR, COMMUNITY AND ECONOMIC DEVELOPMENT DIVISION, GENERAL ACCOUNTING OFFICE

STAN SARGOL, GROUP DIRECTOR, COMMUNITY AND ECONOMIC DEVELOPMENT DIVISION, GENERAL ACCOUNTING OFFICE

ROBERT SHERMAN, DEPUTY BUDGET OFFICER, DEPARTMENT OF AGRICULTURE

PREPARED STATEMENT

Senator EAGLETON. Good morning, ladies and gentlemen.

Today, we will hear from the Inspector General of the Department of Agriculture and the General Accounting Office concerning the problems of fraud and abuse.

We will start off with the Inspector General, and then we will get to the General Accounting Office.

Mr. Inspector General, you may begin.

Mr. GRAZIANO. Good morning, Mr. Chairman. I have a prepared statement which I have submitted for the record. I would like to summarize what we have contained in our prepared statement.

[The statement and biographical sketches follow:]

PREPARED STATEMENT OF JOHN V. GRAZIANO

INSPECTOR GENERAL

OFFICE OF THE INSPECTOR GENERAL

Mr. Chairman and members of the Committee, thank you for the opportunity to appear before you today to provide our perspective on major programs and activities of the Department of Agriculture. My statement will deal with the initiation of a Departmentwide fraud prevention program, resolution of outstanding audits, Departmental Administration, and the programs of four major agencies with potential for significant losses. These agencies are the Food and Nutrition Service (FNS), the Farmers Home Administration (FmHA), the Agricultural Stabilization and Conservation Service (ASCS), and the Food Safety and Inspection Service (FSIS).

FRAUD PREVENTION PROGRAM

One of our major initiatives since my appointment last July has been to direct the development of a new program for the prevention of fraud, waste, and mismanagement. We anticipate that this program will promote better management of USDA funds and other resources. The program is designed to create an awareness in the Department so that personnel will accept their responsibility to be accountable for program expenditures and operations. We plan to implement our program through the Secretary's Policy and Coordination Council, which is composed of the Department's staff officers. The Council was established to resolve issues and give policy direction to USDA components. I chair the Investigations and Auditing Committee of this Council which will key on major issues related to fraud, abuse and mismanagement; monitor the Department's implementation of Office of Management and Budget Circular A-123 instructions regarding the performance of vulnerability assessments; direct experimental projects designed toward prevention; and develop and coordinate policies and standards for agency review, inspection and compliance groups.

AUDIT RESOLUTION

One of the most significant undertakings during the past year was a Departmentwide effort to resolve audits which had been issued for six or more months. As of April 1, 1981, there were 598 audits primarily involving FNS, the FmHA, and the ASCS, that required resolution by September 30, 1981. Under the mandate from the Secretary and Deputy Secretary, the Department reduced the backlog of unresolved audits to 18 by the given date. Resolution of the 18 audits was delayed pending the issuance of legal opinions, regulatory reforms, or the completion of investigations.

During 1981, USDA agencies established $50 million in claims as a result of costs questioned by audits. Of that amount, $36 million was assessed by FNS. We are continuing to monitor and control the audit resolution process.

DEPARTMENTAL ADMINISTRATION

In a Department the size of Agriculture, with its diversity of programs and decentralized field operations, administrative operations are difficult to control and sometimes even more difficult to correct after problems are identified. We have devoted considerable effort to reviewing the Department's administrative systems and operations. Our most recent efforts have concentrated on debt management, procurement, and property management.

Debt Management

As of December 31, 1981, approximately $100 billion, or about 46 percent, of the money owed to the Federal Government is due the Department. Less than two percent of the money owed to the Department or about $2 billion, was delinquent. This represents less than 6 percent of the total Government delinquencies.

In an effort to improve its debt management practices, the Department completed a two-phased Debt Management Study in 1981. Phase I examined debt management in five of the Department's major loan agencies, and Phase II examined debt management in three of the Department's major service agencies and the National Finance Center (NFC). The study called for the use of standard terms and definitions, more timely billings and collections, guidelines on the frequency of billings, the aging of receivables, more timely and accurate debt management information reports, and the use of discounts for early payments and service charges for late payments. USDA Debt Management Coordinating and Steering Committees were formed in June 1981 to provide policy oversight and to review and monitor the implementation of recommendations.

We are currently assessing the extent of corrective action taken and working to develop new techniques to strengthen overall debt management. Our findings include:

- o Agency accounting systems still did not contain the necessary internal accounting and administrative controls to provide accurate and timely information for effective debt managment. For example, the FmHA Finance Office had not provided timely data on loan account transactions and delinquencies to help loan servicing personnel identify delinquent borrowers. Further, the Department's central accounting system, maintained by NFC, did not provide for bad debt writeoffs or interest charges on past due accounts. In addition, NFC's accounts receivable records are frequently inaccurate. Both the NFC and FmHA systems are being revised.

- o Agency instructions did not always provide the guidance necessary for uniform and effective debt management. Debt management terms were not standardized and responsibilities for debt collection were not always identified and assigned. Required demand letters were not always used, procedures to offset delinquencies from other payments due debtors were not fully effective, and interest charges were not always applied to past due amounts. The Department is making positive strides to enact needed corrective action in these areas.

- o Billing terms in a number of agencies were not always cost effective. Interest costs could be significantly reduced if billing periods were on a monthly basis. The Rural Electrification Administration (REA) with over $23 billion in long term debts, is currently working to reduce its cycle from quarterly to monthly. Another agency, Federal Crop Insurance Corporation (FCIC), did not bill for insurance premiums until about 4 months after liability was assumed. Additionally, the premiums were not considered delinquent until 4 to 6 months after billing. FCIC's billing and collection procedures are currently being revised.

- Delinquent payments were still not always offset by payments due debtors from other Departmental programs. Specifically, past due amounts of $1.1 million in ASCS farm storage and drying equipment loan repayments were not being offset from other payments due borrowers. Also, the FCIC did not use its information system to identify delinquent premiums which could be offset from other ASCS and FCIC payments due debtors. We identified $110,000 that could have been offset from payments and an additional potential to offset another $510,000.

Property Management - Excess Furniture and Equipment

In 1979, the media was critical of USDA and other Departments for purchasing new furniture and equipment while simultaneously disposing of usable items that could have met their needs. In response to OIG recommendations in our 1979 audit, the Department developed a central inventory of all unused furniture and equipment and took action to strengthen related controls. General Services Administration (GSA) and the Office of Management and Budget (OMB) also established a Governmentwide moratorium on outstanding unfilled procurements and required a Furniture Requirements and Expense Plan against which future procurements could be monitored and controlled.

In a recent followup review of the Department's procurement and management of office furniture and equipment in the Washington, D.C. area, we found that although the Office of Operations (OO) had developed and implemented a central inventory of excess office furniture and equipment, some agencies had not provided OO with a complete listing of their individual inventories so that the central inventory would be complete. Since rescission of the Governmentwide procurement moratorium, it has been found that agencies often do not check with OO or with other agencies for available unused items prior to initiating new procurements, although this is required by procurement regulations. Moreover, some agencies continue to maintain their own stocks of unused furniture and equipment which defeats the purpose of a centralized inventory.

Based on this information, the Secretary has directed the Deputy Assistant Secretary for Administration to implement a centralized management system to assure better control and more effective budgeting for procurement and use of office furniture and equipment. A Department corrective action plan is currently being developed.

Procurement Management

In a recent audit of procurement management emphasizing yearend spending, we reviewed 13 procurement offices in 6 Department agencies which spent an average of 37 percent of their procurement dollars in the fourth quarter of FY 1980. We found that documentation was lacking which evidenced a bona fide need for the procurement during the year in which the obligation was made. There was considerable use of an abbreviated procurement process to obligate available funds before yearend. We also noted various procedural problems, not attributable to the large volume of activity at yearend, which included untimely delivery of end products without liquidated damages being assessed, late approval of contract modifications on which work had already begun, and inadequate monitoring of contractor performance.

The Department, through OO, has taken a number of actions to improve procurement functions within USDA and its agencies. Most notable was the establishment of a procurement review staff whose principal responsibility is the review of procurement functions throughout the Department. The staff completed reviews of eight agency procurement offices during FY 1981 and has scheduled ten such reviews for FY 1982. OO is also currently developing new procedures in response to our audit which should strengthen procurement operations in the Department.

DOMESTIC FOOD ASSISTANCE PROGRAMS OF THE FOOD AND NUTRITION SERVICE

The Food Assistance Programs administered by FNS obligated $16.3 billion in FY 1981 and are budgeted for $15.7 billion in FY 1982. Because of the large sums spent on these programs and the complexity of their delivery systems, these programs are especially susceptible to fraud, waste, and mismanagement.

Food Stamp Program

The largest program in the FNS budget is the Food Stamp Program (FSP). Its expenditures amounted to $11.4 billion in FY 1981. Its authorization for FY 1982 is $11.3 billion. A Departmental concern is to ensure the accuracy of income reported in applying for food stamps and to reduce the significant errors occurring in certification and benefit level determinations. The following is a description of our involvement in some of the operations of the Program.

Certification and Verification Issues

Verification Procedures

The requirements for verification of information, provided by the applicants and used to determine Program eligibility and benefit levels, have recently been changed to give the States more authority and flexibility. Regulations require eligibility workers to verify gross income, alien status, utility expenses (if in excess of the standard allowance), medical expenses, social security numbers, residency, and the identity of the applicant. The State may also verify such factors as liquid financial resources and household size. Household composition and citizenship can be verified, but only if questionable. These regulations require the use of documentary evidence, like wage stubs, rent receipts, etc., as the primary means of verifying all items except residency and household size. We believe the best way to prevent recipient fraud is to require written documentation and independent verification at the time of the first application.

Matching

Matching recipient-reported eligibility data with similar information maintained by other Federal and State agencies, using computer technology, is an area which has significant potential. Such matching, with appropriate followup, is especially useful during the certification process to assure that only eligible households receive benefits. We are presently working with States to demonstrate the effectiveness of computer matching and to assist them in finding ways to incorporate it into their systems. FNS is planning the implementation of the recent statutory requirement for mandatory matching by January 1983.

OIG auditors and investigators have been using matching techniques for a number of years to determine the extent of underreporting of income, and to project from a sample the number of problems in the certification process in a cost-effective way. For example, in a recently completed effort in Memphis and Nashville, Tennessee, we matched the income reported by food stamp recipients on their applications with records maintained by the State Department of Employment Security. We identified 1,601 possible food stamp fraud cases of which 667 individuals also participated in the Aid to Families with Dependent Children Program (AFDC), 735 received Medicaid, 95 received Supplemental Security Income, and 144 received housing assistance from the Department of Housing and Urban Development. Through the cooperative efforts of State and Federal prosecutors and the Offices of Inspector General in both the Departments of Health and Human Services and Housing and Urban Development (HUD), almost 300 persons have been indicted in Federal and State courts for food stamp fraud. In addition, there have been indictments for fraud in the HUD housing assistance programs and in the AFDC program. The State has processed 940 cases involving 1,357 claims, the additional claims resulting from newly discovered income and AFDC claims. These claims amount to over $1.2 million.

Recently we have joined with the Inspectors General from the Departments of Health and Human Services, Labor, Housing and Urban Development, Education, and the Veterans Administration in a project coordinated through the President's Council on Integrity and Efficiency to use the methodology developed in the Tennessee audit in approximately 12 of the largest food stamp project areas throughout the country. FNS has been very supportive of this effort and has agreed to work with both us and administering State agencies to eliminate ineligible participants and to prevent the recurrence of these abuses.

Department of Justice Food Stamp Task Force

In September 1981, the Attorney General announced the formation of a task force to combat weaknesses in the Food Stamp Program which OIG previously identified in audits and investigations. The task force, coordinated by the Department of Justice, includes OIG representatives as well as personnel from the FBI, Secret Service, and Postal Service. The primary objective is to focus on problems of duplicate issuance, issuance agents, mail theft, and suspected caseworker fraud. They will also help us follow up on our 12-city matching effort described above.

Quality Control System

Quality control reviews measure the correctness of eligibility and benefit level determinations for certification and recertification of food stamp households within a specified 6-month period. Samples of households are statistically selected from both households currently participating in the Food Stamp Program and those either previously participating or denied Program benefits. For each case in the sample, independent reviews are conducted of all information relating to eligibility and correct coupon allotment. Information is compared to that obtained from the previous certification. When information varies, the source of the error is found and the incidence and dollar amounts of any errors are tabulated.

We recently completed an audit of the Quality Control System. Our review, which covered the base period October 1979 through March 1980, concluded that the FNS reported error rate (then 12.6 percent nationwide) was fairly presented. However, we believe the sampling techniques need to be strengthened. For example, the quality control system, which establishes sanctions against States, is designed to measure the number of dollars lost due to inefficiency, fraud, waste, and abuse in program operations. However, FNS regulations require States to determine quality control sample sizes based on caseload size or attribute sampling, which measures the number of cases in error, not the number of dollars in error.

Additionally, FNS does not determine States' sampling precision of the determined error rate. In scientific statistical sampling procedures, error rates are normally expressed in terms of a plus or minus factor from the mean, or midpoint, projection of loss. For example, a midpoint error rate of 20 percent would normally be presented by saying that we are 95 percent certain that the error rate is 20 percent, plus or minus some figure, for example, 2 percent. In other words, we are 95 percent certain that the error rate is no lower than 18 percent and no higher than 22 percent, and that our best estimate is that the error rate is 20 percent.

Administrative Cost Sharing and Sanctions

The 1980 Amendments to the Food Stamp Act provide for an adjustment upward from 50 percent to a maximum of 65 percent as the Federal share of administrative expenses, for those States that have relatively low error rates. A sanction system was prescribed to penalize States with high error rates. This administrative cost sharing and sanction system was enacted by Congress to encourage States to lower their error rates.

FNS has just finished comparing the quality control data from the base period October 1979 through March 1980, with payment error rates for October 1980 through March 1981, to determine each State's liability for sanctions or eligibility for enhanced funding. Fourteen States are subject to fiscal sanctions ranging from $107,000 to $3.5 million because of their high error rates. The Department recently notified the 14 State Governors that their States were subject to these fiscal sanctions. The States were informed that their sanctions could be waived if, by April 1, 1982, they implement a specific program to improve administration and reduce errors. The Department is requiring as part of the corrective action process that these States use wage data collected by both State Unemployment Insurance agencies and the Social Security Administration to verify earnings of food stamp recipients. The Department also expects sanctioned States to commit the necessary resources to process questionable cases. These actions are needed to reduce the estimated $112.9 million that the FNS quality control program shows is issued erroneously each month (nationwide current average error rate of 13.31 percent times the average monthly issuance of $848.5 million for the October 1980 - March 1981 quality control period).

The specific actions needed can best be illustrated by an example. North Carolina is presently subject to a $3.5 million sanction. Their quality control data show that North Carolina issued approximately $3.9 million in error each month. The data also demonstrate that North Carolina has over 10,000 households participating in its Food Stamp Program that are ineligible and an additional 11,000 households that are eligible but receiving excess benefits. Since the average issuance per household is approximately $112, the 10,000 ineligible households alone constitute a drain of over $1.1 million a month in Federal dollars. If North Carolina would purge these ineligibles from the rolls and match its rolls against wage reporting data to ensure such abuse does not recur, it would save the Federal Government more than the $3.5 million sanction.

Issuances

Direct Mail Issuance

Recipients receive their food stamps through one of several types of issuance systems. In some States and project areas, food stamps are mailed directly to households. Direct mail issuance is convenient to recipients and cost effective as long as losses are small. FNS currently bears the cost of mail losses. Loss estimates were about $10 million in FY 1980 and $21 million in FY 1981.

One problem with issuing food stamps through the mail is that there is no evidence of receipt, such as signatures of persons who handle and receive coupons. In some areas, certified mail is used very successfully. It effectively tracks the handling and receipt of the coupons but is costly and can be burdensome to the Postal Service.

To reduce mail losses, FNS has limited the replacement of mailed food stamps to two losses to a recipient in a 6-month period. Congress has also authorized FNS to set loss tolerance rates beyond which a State would be liable. Proposed regulations will be published this spring. Quick implementation of these regulations would allow the States to include consideration of the costs of mail issuance in making decisions to adopt or continue this delivery system.

ATP Issuance

By far the most common form of issuance is the Authorization-To-Participate (ATP) card system. Under this system, a computer-generated authorization card, serially numbered and containing the recipient's name, address and allotment, is mailed to the household each month. Recipients take the ATP's to coupon issuers who issue the food stamps after checking recipient food stamp identification cards. These authorization cards are vulnerable to theft and to recipient fraud if recipients falsely claim that they did not receive them. In response to this problem, FNS has instituted a requirement that reconciliations identify the redemption of both the original and any replacement ATP's. Regulations now also require that recipients who report two consecutive losses be changed to an alternate delivery system.

ATP Demonstration Projects

Two of the areas which had been experiencing large program losses from duplicate redemptions of ATP's have developed demonstration systems to minimize their losses. Both of these appear to be very successful.

New York City and its Rapid Access System. New York City has implemented a Rapid Access Reconciliation System whereby a recipient is required to wait 5 working days following a request before receiving a replacement card. This 5-day delay, combined with a shortened 8-day life for the authorization card, maximizes the number of original cards which can be cleared by the new reconciliation system. If the original card is redeemed and reconciled during the interval, the recipient is sent to a central location where the signature on the replacement card request, completed 5 days previously, is compared to that on the original redeemed card. Only if they do not match is the recipient given the replacement ATP.

Since implementation of this system, the number of instances where both the initial and replacement ATP's were transacted has dropped substantially. From June through October 1981, approximately 10,000 replacement ATP's were issued monthly, a 250 percent drop from our audit in 1978. In October 1980, the first month of the new system, both the initial and replacement ATP were cashed by the recipient in 23 percent of the cases. Now the figure is around 3 percent, a substantial reduction in fraudulent redemptions. In the rest of the cases, the proportion in which both ATP's were cashed, but the first was redeemed by someone other than the recipient, has been reduced from about 22 percent in October 1980 to about 5 percent. The proportion in which the first ATP is not negotiated has risen from about 55 percent to about 93 percent. The decrease in redemptions of ATP's by someone other than the intended recipient is due, in part, to requiring the use of photo identification cards and the close monitoring of offices that cash the ATP's. Cashiers in these offices are now being billed if correct photo identification card numbers are not noted on the ATP and if they redeem expired ATP's. These steps make cashing ATP's by someone other than the recipient more difficult. However, some problems remain. It is still possible for a recipient to hold the original ATP beyond the 8-day period, leading the City to believe that the original has not been negotiated, and then cash both the original and replacement. Another possibility is that the first ATP can be cashed outside New York City. In that case, the original would not be recorded until it was received by the City at the end of a month. If a person redeems both the original and replacement ATP, it will be detected by the City's fraud unit, but only after the fact.

New York City has also implemented other reforms which have further tightened the Program. The City is now examining all ATP's returned by the Post Office because they could not be delivered. If an ATP is returned for two consecutive months, a notice is sent to the recipient. If no reply is received, the case is closed. If the recipient responds, the problem, normally a wrong address, is corrected. They have also instituted a computer edit to ensure that recipient households do not receive two ATP's in a month as a result of their case having two entries in the issuance system. The problem has arisen when a household moved to another food stamp office and their first case entry was not cancelled or when an eligibility worker had completed the wrong data entry form. New York City is still not collecting claims against recipients who are issued benefits erroneously. They have, however, successfully attacked the problem of improper benefits through matching with the New York State employee file, the Wage Reporting System, and the Unemployment Insurance Benefit file. They have closed 4,154 cases and rebudgeted another 1,657 cases because of discoveries of additional income not reported by recipients.

Pennsylvania's Direct Delivery System. Another encouraging project is the Direct Delivery System in parts of Philadelphia and Pittsburgh. In this system, recipients go to the offices of issuance agencies who have both the ATP and food stamps. The recipients sign their authorization cards and, at the same time, pick up their coupons after presenting a photo identification card. This system eliminates the possibility of mail theft or of recipients fraudulently claiming the nonreceipt of their authorization card. FNS has recently extended the time period for this project and has expanded the area of coverage. They report, on average, only four ATP replacements per month in areas using direct delivery, a significant reduction. Moreover, they have found this new system to be popular with recipients who report it more reliable and convenient, especially for those who pick up public assistance checks along with their food stamps.

Identification Cards and Endorser Liability

The use of photo identification cards is important in determining the identity of recipients when issuing benefits through the ATP system. A 1980 Amendment to the Food Stamp Act allows the Secretary of Agriculture, in consultation with the Inspector General, to require photo identification cards for recipients in specific areas. The use of photo identification cards is presently being implemented in all project areas with 100,000 or more food stamp participants. Moreover, FNS, in consultation with OIG, may require photo identification cards in other project areas if warranted by such problems as a large number of duplicate issuances. FNS regulations also stipulate that the cashier must write the serial number of the ID on the ATP or household issuance record card.

To ensure the proper use of the photo identification cards, it is important that the coupon issuer be held liable for ATP's redeemed by persons other than those authorized, for counterfeit or altered ATP's, and for redeemed ATP's on which there is no identification card number. Part of this recommendation has been incorporated into the 1981 Amendments. This legislation provides that contracts with issuers must require liability for the value of coupons in those cases in which an ATP has been stolen and the issuer has not recorded the number of the photo identification card on the ATP. This provision should be extended to require liability in all instances where the issuer does not write the number of the identification card, either photo or non-photo, on the ATP.

Replacement of Benefits

FNS has issued new regulations for the replacement of coupons and ATP's which should reduce many program abuses experienced in the past. Currently, coupons lost or stolen after receipt will not be replaced unless they are destroyed by fire, flood, tornado, or other disasters. Food stamps or ATP's lost or stolen from the mails will be replaced only if the household has not already been issued two replacements in the previous six months. ATP's stolen or destroyed after receipt may be replaced once every six months.

Caseworker Fraud Model

The caseworker fraud model is a computerized statistical model designed to help target investigations to persons who have access to food stamp case files and who have a high potential for committing fraud. Fraud is committed by continuing recipient cases in the program who are no longer eligible, who are dead, who don't exist, or who misrepresent eligibility. Although this model is aimed at the caseworker, it has also surfaced fraud committed by recipients and other personnel with access to case records. The model examines several factors such as caseload, dollars issued per case, the distribution of household sizes within the caseload, and identifies those workers statistically different from the average for their office and project.

Food Stamps as a Medium of Exchange

The size of the Food Stamp Program, currently with monthly participation approximating 21.8 million persons and this fiscal year's authorization of $11.3 billion, has made food stamps a common medium of exchange. We have no way of measuring the extent to which food stamps are used to purchase items other than food, but our investigations continue to show it is possible to buy just about anything with food stamps. In the latter half of 1981, 32 individuals were indicted in Nashville, Tennessee; 39 in the Tidewater, Virginia, area; 21 in Clarksdale, Mississippi; 42 in Albuquerque, New Mexico; and 11 in Broward County, Florida; all for accepting food stamps from undercover agents for items such as cash, guns, drugs, cars, and other stolen property. Many of the individuals we have investigated have had extensive prior criminal records for such offenses as homicide, assault, burglary, theft, and narcotic and weapons violations. Some have been identified as having ties to organized crime.

OIG and the FNS Compliance Branch devote substantial resources to investigations of trafficking activities. In our opinion, preventing these activities by reducing the opportunities to obtain coupons illegally is a better method of attacking the problem. Recent requirements for photo ID's and for holding coupon issuers liable for improperly redeemed ATP's are also important in controlling this abuse.

Food Stamp Redemptions - The Atlanta Project

After grocers receive food stamps, they deposit them at their banks and the value of the coupons is credited to their accounts. FNS regulations require that grocers also complete a redemption certificate form showing the amount of food stamps accompanying their deposit. Once the stamps are desposited by the grocer, there is no record of reconciliation against the redemption certificate or the bank's deposit document. Banks send the redemption certificates to the FNS Minneapolis Field Center which uses the information on the forms to monitor grocery store redemption ratios for program compliance. The food stamps and the bank's deposit document are separated from the redemption certificate and sent to a Federal Reserve Bank which counts and destroys the stamps. At that point, the Federal Reserve bills the U.S. Treasury for the amount of the food stamps. In FY 1979, the Federal Reserve System reported receiving an average of $1.4 million more monthly in coupons than FNS could account for from their retailer redemption records. By FY 1981, the monthly average discrepancy had risen to $16 million.

FNS and the Federal Reserve Bank in Atlanta cooperated in an experiment to reconcile and learn the causes of these discrepancies. They redesigned the redemption certificate and required bank tellers to enter the total value of the food stamps on the form below the grocer's figures after they counted the stamps. They also required that the bank deposit document list the value of each redemption certificate. All documents were sent to the Federal Reserve Bank in Atlanta which then transmitted the redemption certificates and copies of the deposit documents to Minneapolis. These modifications virtually eliminated the discrepancy between the value of the food stamps and the amounts shown on the redemption certificates. In addition, this system provides a clear trail for the accountability of food stamps for audits and investigations. It tracks the value of deposits from the grocer to the destruction of the stamps, and provide a clear trail if coupons are improperly deposited. This system also ensures that the analyses of redemption certificates that are used to direct FNS compliance efforts are based upon complete information. We urge FNS and the Federal Reserve Board to adopt these modifications nationwide.

National School Lunch Program

In February 1981, OIG issued a report on the National School Lunch Program. Based on our review of 220 statistically selected schools, we projected that in May 1980, about 3 million children received free or reduced price lunches to which they were not entitled. Total costs for ineligible meals for May 1980 were estimated at more than $175 million. Approximately 80 percent of the ineligible participation was attributed to families who underreported income on free and reduced price meal applications; the remaining 20 percent was attributed to incorrect meal authorizations by schools.

Although regulations have not yet been issued, FNS has developed a sample free and reduced price meal application form for State adoption nationwide. The new form requires households to report the sources and amounts of their incomes and the social security numbers of all adult household members. The form also provides a warning to parents that the information provided on free and reduced price meal applications is subject to verification by school food authorities. FNS also plans to publish income verification procedures for public comment so that some verification requirements are in place for the 1982-83 school year. Procedures, however, have not yet been developed. In our view, it is extremely important that the new regulations be issued in time for implementation during the 1982-83 school year. We are continuing to monitor this situation.

RURAL DEVELOPMENT PROGRAMS OF THE FARMERS HOME ADMINISTRATION

The Department has a dual responsibility with respect to agricultural credit and rural development. On the one hand, it is responsible for improving the rural economy by refinancing debts, easing eligibility requirements for loans and rescheduling repayments. On the other, it is responsible for implementing the Administration's financial improvement initiatives for collecting debts, transferring credit sources to the private sector, and making sure that benefits are received only by eligible applicants.

The Farmers Home Administration is the credit agency for agricultural and rural development in USDA. As of September 30, 1981, FmHA had about 1.4 million active loan borrowers and a loan portfolio of about $55 billion. We are encouraged by the emphasis now being placed on improved management within FmHA. The Agency is making progress in its efforts to develop and implement an accounting and financial information system. We have monitored the planning and operational aspects of this project in the past and will continue to do so to assure that Agency officials are apprised of problems and delays.

The Secretary has asked for better targeting and management of resources to minimize the impact of budget reductions. In this regard, we will be targeting our resources into those areas that have been most trouble-prone in the past. In a period of tight money conditions, it is especially important to assure that available money is loaned only to those who need it, that interest credits are based only on need, that adequate security and loan servicing is provided to assure loan repayment, and that borrowers are graduated to the private sector when they qualify. Examples follow of programs and operations we believe will require the most attention in the coming year.

Business and Industrial Loan Program

The Business and Industrial (B&I) Loan Program was funded at $652.2 million in FY 1981 and the authorization for FY 1982 is $300 million. As of December 31, 1981, there were 3,156 B&I loan borrowers with loans totaling $3.2 billion. We have devoted considerable resources to this program in the past, and FmHA has initiated a number of corrective actions designed to improve pre-loan analysis, loan guarantee approval, and borrower equity requirements. We intend to conduct a followup review this year to evaluate the effectiveness of FmHA's corrective actions.

As of June 1981, there were 127 B&I loan borrowers with liquidated loans totaling about $77 million. FmHA paid approximately $40 million in losses on these guaranteed loans. There were also 257 borrowers in the process of liquidating B&I loans totaling $222.5 million. We are presently conducting an audit of B&I loan liquidations to: (1) analyze FmHA's internal controls over liquidations; (2) determine the extent of avoidable losses; and (3) recommend actions to minimize losses on future loans. We believe the administration of these loans can be improved by stronger lender servicing prior to and during liquidation, as well as effective and concurrent FmHA servicing. To date, we have found a number of loan servicing problems with both lenders and FmHA personnel. We have alerted FmHA to the need for maintaining field service staffing at present levels to hold potential losses to a minimum.

Farm Operating and Emergency Loans -- Evaluation of Loan Security

Farm operating and emergency loans comprise about 73 percent of all farm program loans made by FmHA. Unpaid balances totaled approximately $12.3 billion in May 1980. The Department's philosophy for these loans is to use available credit to keep farmers in business. Our objectives are to ensure that funds are protected from abuses. We conducted a nationwide audit to determine if security property for FmHA farm operating loans was obtained and loans were serviced in accordance with laws and regulations. Our audit disclosed that many borrowers did not have long-term repayment plans and/or the ability to make repayment. Based on our statistical sample, we projected that the unauthorized dispositions of security property had jeopardized about $1.4 billion in loan principal. To strengthen their management of the program and prevent substantial losses of loan funds, FmHA revised instructions to require annual site checks of all chattel and crop secured loans. They also required FmHA county supervisors to notify all purchasers of agricultural crops and livestock within the local trade area that FmHA will furnish, upon request, a list of borrowers who have operating loans. FmHA has instructed its State offices to vigorously pursue civil or criminal action against borrowers and third parties who convert security property for their own benefit. In addition, regulations will be amended to require the scheduling of loan repayments for annual recurring expenses at the time when the principal income from the year's operations is normally received. This should make it easier for borrowers to repay loans and for FmHA to collect proceeds from mortgaged crops and livestock.

I would like to cite an example from one of our investigations of how flagrant some abuses can be in the Farm Operating Loan Program. In this instance, a Florida cattle rancher and three of his sons were convicted of conspiracy to defraud the Government by furnishing FmHA with fraudulent documents. The family members had obtained $200,000 from an escrow account established for cattle purchases by presenting bills of sale for payment, for nonexistent cattle. The rancher and one son were convicted for false testimony about the cattle transfers before the Federal Grand Jury. The Court fined the family members a total of $30,000 and each was ordered to make restitution of $50,000. Two sons were placed on probation while the father and another son were imprisoned for 6 months. A fifth conspirator was found guilty and sent to prison for 14 months.

Rural Housing Program - Interest Credit Provisions

We reported in 1976 that some low income housing borrowers received excessive subsidized interest credit because income levels were improperly determined when the application for assistance was filed or had increased without an interest credit adjustment during the two-year period of the agreement. A followup audit in 1979-80 found that the extent of improper interest credit assistance had increased. FmHA officials have now agreed to: (1) enter into one-year interest credit agreements; (2) base the contract on the borrower's current family income; and (3) adjust the level of assistance when errors or changes in income are determined. We estimate that starting this year, FmHA will be able to reduce excessive credits by at least $100 million annually for the more than 300,000 interest credit agreements currently in effect.

One of our investigations illustrates how the interest credit provisions can be abused. A builder in Texas constructed two homes for which his wife processed FmHA loan applications for their two sons. Their employer understated one son's income on an employment verification form and the builder understated the income of the other. The sons and their wives signed other documents containing false information. The FmHA county supervisor with knowledge of the incorrect information, processed the documents. The subjects were named in a nine count conspiracy indictment for defrauding the Government; legal proceedings are pending.

Rural Rental Housing (RRH) Loans

We are presently conducting an audit of RRH loans to evaluate the effectiveness of FmHA's management of the Program. We are specifically looking at project and tenant eligibility, management fees, construction costs and the approval of rental assistance. The overall objective will be to determine whether loan funds are being targeted to the areas of greatest need.

FmHA Preventive Audits

To improve audit productivity and effectiveness, we statistically sampled selected types of loans in ten States which will enable us to project with a high degree of confidence, how well State and National programs are operating. In turn, FmHA management will have useful information on which to base decisions for across-the-board corrective actions. The audit results will establish a base line for evaluating future program improvements.

FARM PROGRAMS AND COMMODITY CREDIT CORPORATION ACTIVITIES

Agricultural price support activities are carried out by the Department's Agricultural Stabilization and Conservation Service (ASCS) under the auspices of the Commodity Credit Corporation (CCC). This past year we have completed audits on USDA's involvement in the Soviet grain suspension, the grain reserve and emergency feed programs, and CCC's interest rate policy on commodity loans and farm storage and drying equipment loans.

Monitoring of USSR Grain Suspension

In January 1980, President Carter ordered grain deliveries to the Soviet Union suspended and directed USDA to take all actions necessary to stabilize the market. We monitored the suspension activities and recently issued an audit report on USDA's involvement. In addition to various management improvements, we recommended and the Department agreed, that the amounts claimed on assumed exporter contracts be reduced by about $10.5 million. We believe an additional $5 million could have been saved had the CCC accepted other recommendations concerning the procedures used to compute USDA obligations on contracts assumed.

CCC Commodity Loan Program

This audit tested the effectiveness of controls over commodity loans and the extent of collateral shortages. Collateral shortages were found in 46 of the 390 farm-stored loans we statistically selected in 6 States which comprised approximately 85 percent of all farm-stored corn loans approved as of March 31, 1981. Projection of these findings to all loans in the six States audited, showed the potential for at least 9 million bushels of collateral shortages with a loan value totaling approximately $19 million.

ASCS has initiated action to better ensure that loan collateral is not removed before loans are repaid or proper authorization is obtained and is considering the application of liquidated damages for unauthorized removal or willful conversion.

Interest Rates Charged by the Commodity Credit Corporation

The interest rates that the CCC charged on commodity and equipment loans were not periodically adjusted to reflect the Treasury rate of borrowing. As a result, interest costs incurred by the CCC for 1980 exceeded interest payments from borrowers by more than $24.5 million.

CCC revised its policy, effective January 1, 1982, to: (1) adjust interest rates on new loans each month to reflect the current Treasury rate; and (2) adjust interest rates on all outstanding loans to the corresponding Treasury rate on January 1, each year.

Emergency Feed Program

The Emergency Feed Program was established to assist producers in preserving and maintaining livestock in an area affected by a natural disaster.

We audited 537 applications which were statistically sampled from the nine States in which approximately 87 percent of all program payments were made in FY 1979 (the most recent and complete data base at the time of the audit). Based on the sample results, we were able to project that of the $60.9 million paid to producers in these States, about $21.7 million could have been saved had stricter controls been used to compute pasture losses, feed requirements and normal feed purchases.

ASCS agreed to implement actions to tighten program controls. Amendments to program operating procedures enacted since FY 1979, have placed greater emphasis on compliance monitoring which should correct some of the problems associated with pasture loss.

Inventory Management Plan

Last spring, in both our Semiannual Report and overview testimony before the

Senate Appropriations Subcommittee on Agriculture and Related Agencies, we recommended that the CCC develop a comprehensive plan to provide a more orderly and less costly system for managing its commodity inventory. We believe our position is well illustrated by the recent situation with surplus cheese. With an inventory of about 547 million pounds of cheese and the likelihood of additional acquisitions under 1982 price support provisions, CCC was forced to dispose of some of the surplus. Although the current distribution of cheese has been orderly and beneficial, we are concerned about the condition, age and quantity still in inventory, the associated storage costs, and the lack of definitive long-range plans for dealing with inventory management.

FOOD SAFETY AND INSPECTION SERVICE

Australian Meat Substitution Operation

In July 1981, a USDA meat inspector at a processing plant in San Diego, California sampled and retained three cartons of meat imported from Victoria, Australia. The meat, presented as "boneless beef," appeared "darker and stringier" than normal. The samples were sent to a Food Safety and Inspection Service (FSIS) laboratory where tests showed a substitution of product. FSIS notified the importer, OIG, and the agricultural attache at the Australian Embassy of the substitution.

U.S. and Australian officials entered into a joint cooperative effort to determine the source and extent of the meat substitution. We dispatched a special agent to Australia to exchange information on the case and to work with Australian law enforcement authorities. Australian officials have arrested and charged several individuals with criminal activities. Our domestic investigations have uncovered no evidence of conspiracy or fraud on the part of any persons or firms. We continue to monitor investigations by the Australian Royal Commission and the Federal Police. Officials in both nations, however, believe that the illegal substitution of meat products from Australia has ceased.

Both the U.S. and Australia have instituted controls to guard against the recurrence of such an incident. FSIS has reinstituted a program to randomly sample all boneless beef imported from Australia for species determination, a practice they discontinued in 1975 after experiencing no problems with compliance during the preceding 10-year period. Australia has developed and implemented a new system to monitor and control the processing and shipment of beef and other meat food products to the United States.

Foreign Meat Inspection Program

A recent audit of the FSIS's Foreign Meat Inspection Program found weaknesses in the controls used to assure the integrity of meat and meat products entering the U.S.

Imported meat and meat products enter the U.S. through designated ports under a U.S. Customs bond where they are inspected by FSIS. Product samples are forwarded to laboratories for analysis. If the meat is acceptable, it is released for U.S. consumption; otherwise it is denatured, destroyed or removed from the U.S.

Importers of refused product are given 30 days to locate return transportation and/or other buyers for refused product; however, an extension of up to 90 days from the date of the initial inspection may be granted. The U.S. Customs Service is responsible for ensuring compliance with this requirement. Custom officials are also required to supervise the loading of refused product for export aboard a carrying vessel and to record the product's ultimate disposition on a U.S. Customs form.

Our audit dislosed that the current "check list" type formats used to report foreign plant reviews were inadequate to describe the nature of observed deficiencies, their causes, and prescribed corrective actions.

We also found weaknesses in product sampling controls at U.S. ports of entry. Identification of product samples was sometimes inadequate to trace samples back to the product from which derived. Security for product samples, moreover, did not preclude sample switching.

Considerable delays between sample selection and laboratory analysis were also found. Such delays make it more difficult to recall a product when above-tolerance levels of residues or other violations are found. For example, a review of import samples during a 7-month period in Calendar Year

1980 revealed that 37 percent of the samples received took at least 3 days to reach the laboratory.

Delays in the preparation of Refused Entry Notification forms and their subsequent transmittal to FSIS Headquarters, the U.S. Customs Service and the Foreign Programs Officer in the country from which the refused product originated also existed. We found that it took an average of 13 days between the time an inspected product is found unacceptable and the time required forms are prepared.

We also discovered that the loading of refused product on vessels was seldom supervised by Customs officials. Rather, they were notified by dock workers when the loading was completed.

Overall, products refused for entry are not systematically tracked from initial introduction to final disposition. For example, a review of 484 lots for 6.6 million pounds of refused products awaiting removal from the U.S., found 84 percent were in storage facilities more than 90 days. Of this total, 208 lots dated from 1979 while 20 lots dated from 1978.

We recommended that controls over the disposition of refused products, and sample selection and handling procedures be strengthened to decrease the likelihood of improper products entering U.S. commerce. FSIS is currently revising foreign establishment inspection forms, and is working with the U.S. Customs Service to determine ways to better control the disposition of refused products.

General Comments

In FY 1981 USDA had a budget of $25 billion in direct budget authority and an additional $26 billion in lending authority to carry out its numerous programs. The Department employed approximately 85,000 permanent full-time employees and 42,000 other employees. OIG provides the audit and investigative coverage and oversees the administration of this vast array of complex USDA programs. There are about 300 USDA programs ranging from the highly visible, multifaceted food stamp and farm loan programs, to many other Departmental programs having less visibility but requiring OIG oversight.

The greatest portion of our resources are directed to those agencies whose programs we view most in need of management attention and most vulnerable to fraud, waste and abuse--Farmers Home Administration, Agricultural Stabilization and Conservation Service, and Food and Nutrition Service. However, we are aware of significant growth or emphasis in other programs such as Crop Insurance, Soil and Water Conservation, Export Market Development, Agricultural Research and forestry activities and have programmed our resources accordingly. Also, USDA programs require auditors and investigators with specialized skills in addition to their audit and investigative knowledge. Prime examples of these skills are knowledge of computer operations and of statistical sampling techniques.

In 1964 when the IG concept was first established in USDA, we identified $8.8 million in monetary results, specifically in questioned costs or loans; recoveries; penalties, fines, and judgments; savings, cost avoidances and management improvements; and claims established. In 1981, we identified $478.6 million in monetary results--more than a 5,000 percent increase over a 17-year period, with only a 6.0 percent increase in staff. This represents average monetary results of over $764,000 for each of our auditors and investigators. In addition, we had 1,051 indictments, an increase of 38 percent over the 652 indictments for 1980. Both years had a 90 percent conviction rate for the criminal investigations we conducted.

Agency Initiatives

I'd like to take a few minutes to discuss some initiatives OIG has undertaken since my appointment last July.

Fraud Prevention Efforts

First, I would like to discuss our fraud prevention efforts which I have assigned as high priority work. Although we are continuing our efforts in the detection area, we also have under development a program that goes considerably beyond our past detection efforts.

Recent OIG studies disclosed that many of the Department's programs were vulnerable to fraud, waste and mismanagement. Our prevention program, under development, would use the Secretary's Policy and Coordination Council as a vehicle for change. Our program is being designed to increase the awareness of

Department personnel to recognize program vulnerability and accept personal responsibility and accountability for safeguarding and controlling the dollars and resources entrusted to them.

Our program will involve a four-fold approach. We want to: (1) identify vulnerability through assessment surveys and reviews and ensure that the Department establishes and maintains appropriate internal control systems over agency programs and administrative activities; (2) cross-train and cross-utilize personnel between OIG and other Departmental components in the vulnerability assessments and internal control areas; (3) examine the potential of a prevention program from the top agency headquarters level to the programs and services delivery points; and (4) examine the organization, workplace and supervisory and management practices of agencies for possible contributions to the avoidance of incidences of fraud, waste and mismanagement.

Statistical Techniques and Computer Matching

For some years, we have made extensive use of statistical sampling and computer matching procedures in our audit work. We use these techniques because they are cost effective and provide program managers with data that is fair and equitable.

Through computer matching the Food and Nutrition Service recently notified 14 states that they were subject to fiscal sanctions ranging from $107,000 to $3.5 million as a result of high Food Stamp error rates. We are now working with these states, through computer matching techniques, to identify individuals receiving food stamps who are ineligible; and to help states develop means to prevent ineligible participation in the future. We believe, for example, if the one state which was receiving the highest sanction of $3.5 million were to undertake this matching program, they could save over $1.1 million a month in Federal dollars. This would quickly surpass the amount of the sanction and have the immediate effect of dropping ineligibles from the roles, thereby significantly reducing over issuances to eligible households.

Statistical techniques are used to help target firms, employees, and program recipients who may have committed fraud. They are also used to evaluate all records stored in computer data bases. The most efficient model we currently use evaluates check cashers of Authorization to Participate (ATP) cards. This model uses a grid system, which examines the distance between a recipient's residence and the place where the recipient cashed the ATP for food stamps. In a recent case, of the first nine cashiers identified by the model as being suspect (cashing stolen or duplicate ATP's), all were found to be engaged in fraudulent activities. All nine of these check cashing outlets have been eliminated from the Program, and the cashiers have been indicted and convicted of illegal activities.

We are convinced that these techniques have a multitude of positive effects on the Program. In most cases, not only are we getting corrupt individuals out of the Program, but we are achieving a measurable deterrent effect.

In addition, we are sharing the technology developed by Agriculture with other OIG's as most of our techniques have applications in programs of other Departments. Investigations that formerly took more time to complete using traditional techniques, can now, with the help of hotline referrals, audits, etc., be processed more timely through the computer.

Debt Management

In the debt management area, we performed a survey to evaluate the adequacy of the management of the $94 billion owed to the Department, which is nearly one-half of the Government's total outstanding debt. We found that inadequate administrative and accounting controls adversely affect the accuracy and timeliness of debt management reports. As a result, management's ability to monitor the status of debts and to pursue aggressive debt collection is impaired, and debts in the delinquency category have increased. We also found that offsets against program payments were not being consistently applied against debtors with past due amounts. Some agencies are billed as infrequently as once a year resulting in delays in collections and the loss of millions of dollars in interest payments to the Treasury. Also, the lack of a viable case management tracking system created problems in the accountability of over $550 million in debts referred for collection or for legal action.

Cooperative Inspector General Efforts

We are cooperating with other IG's in several joint efforts. For example, eligibility for food stamps as well as several other Federal benefit programs is based on the amount of income a person receives. When applying for these entitlement programs, the applicant is generally required to provide proof of income by presenting a wage stub or similar documentation. Generally, no further verification of income takes place. This self declaration process contributes in large part to the existing high error rate in these programs. Audits and quality control reviews have shown that underreporting of income is the single largest error detected in the Food Stamp Program and accounts for approximately 50 percent of all errors detected. Based on the most recent quality control statistics, underreported income results in the erroneous issuance of approximately $100 million in food stamps each month.

To attack this problem, OIG recommended that ADP wage matching be made mandatory in the Food Stamp Program, and as a result, the Agriculture and Food Act of 1981 has made this matching mandatory. The Food and Nutrition Service expects to have this provision implemented by January 1, 1983.

We are also working with the Inspectors General from several Departments in a joint project coordinated through the President's Council on Integrity and Efficiency (PCIE) to detect recipients of several entitlement programs who have improperly reported their income. In a recently completed effort in Memphis and Nashville, Tennessee, we matched the income reported by food stamp recipients to the records of the State Employment Security Bureau. In that match, we identified about 1,600 possible fraud cases. We estimated that food stamp losses were about $2.5 million and losses to the AFDC program were about $500,000. The State has taken action on these 1,600 cases to remove ineligible individuals from the rolls. We are currently expanding this effort through the PCIE project to approximately 12 of the largest food stamp project areas in the country.

Organizational Realignment

We have taken a close look at the OIG organizational structure and the distribution of our limited resources. Extensive reviews have been made of our operations and, as a result, we have restructured our headquarters organization.

A new unit has been created, the Assistant Inspector General for Fraud Prevention and Evaluation, to better reflect our increased emphasis on fraud prevention and detection. We have also realigned our headquarters to strengthen security and other operations.

FY 1983 Budget Requirements

Our budget requirement for FY 1983 is $43,918,000--an increase of $3,090,000 over FY 1982. It includes increases of: $1,234,000 to restore pay costs absorbed in FY 1982; $250,000 for the special agent premium pay program (uncontrollable overtime); $225,000 for official duty station moves; and $1,381,000 for travel.

The premium pay program was instituted in OIG in FY 1977 at a funding level of $400,000. It has proven to be very economical and effective and an incentive to the agency's recruitment efforts. The program provides for uncontrollable overtime that agents spend in interviews and surveillance work which cannot be accomplished during established work hours. The funding level has not been increased since it was instituted, although several pay cost increases have occurred since that time. In FY 1981, the program cost nearly $650,000 and provided the equivalent of 31 staff years of work. This represents a staff year cost of approximately $21,000 compared to an average special agent staff year cost of $29,000.

Due to the widely dispersed programs of the Department, OIG maintains regional offices with various suboffices reporting to them. Maintaining these offices with the best available expertise and for maximum coverage of delivery points of USDA programs, requires the agency to make several official duty station (ODS) moves each year. Also, attrition and cross-training are major causes of ODS moves. About 70 percent of our auditor/investigator vacancies are filled by personnel from other Government agencies so we may benefit from their experience and expertise. We are, therefore, requesting $225,000 to fund the increased costs related to these ODS operational moves which will allow us to continue our current level of cross-training and staff recruitment efforts.

We are also requesting an increase in travel funds. We are acutely aware of the emphasis on reducing travel funds and recently re-emphasized tight efforts in travel management and controlling travel costs. Despite our internal controls, costs continue to rise because of increases in per diem rates (increased from $50 to $75) and common carrier costs. The number of cities included in the High Rate Areas (HRA) and those costing $75 is constantly increasing, and these increases directly affect our limited travel funds. We are therefore requesting an additional $1,381,000 to offset these increased travel costs.

At this time I would be glad to answer any questions the Committee may have.

BIOGRAPHICAL SKETCHES

JOHN V. GRAZIANO

John Graziano has been in security and investigative work with various agencies of the U. S. Government for over 30 years. He was confirmed as Inspector General at the U. S. Department of Agriculture on July 31, 1981. Prior to his appointment as Inspector General, Mr. Graziano was the Assistant Inspector General, Investigations, Office of Inspector General, U. S. Department of Commerce.

In April 1974 he was appointed Director of the Office of Investigation, U. S. Department of Agriculture. In Janauary 1978 he was detailed from that position to that of the Special Coordinator for Grain Elevator Safety and Security, investigating the causes of a number of catastrophic grain elevator explosions that resulted in the loss of many lives and impacted on our grain trade.

In 1970, while Chief, Investigations Division, Federal Aviation Administration, he was responsible for the organization, training, deployment and supervision of 1,500 "Sky Marshals" to prevent aircraft hijacking.

Mr. Graziano was born in Brooklyn, New York. He is a graduate of St. John's University, New York, New York, and will receive his Master's Degreee in Criminal Justice shortly. He is active in a number of orgainizations. He has been a member of the Advisory Board of the Association of Federal Investigators, and is active in the International Association of Chiefs of Police. He has also been a member of the Board of Directors of the Federal Law Enforcement Training Center, Glynco, Georgia, which trains all Federal Criminal Investigators, except for the FBI. He has taught courses at the University of Oklahoma, University of Louisville, and American University. He has published a number of articles in the field, and contributed to published books on computer crime and orgainized crime. He is Chairman of the American Society for Industrial Security's Standing Committee on White Collar Crime.

ANTHONY J. GABRIEL

Mr. Gabriel has been involved in audit and investigative work for over 26 years. He was selected Deputy Inspector General at Agriculture on November 15, 1981. Prior to joining Agriculture, Mr. Gabriel was the Assistant Inspector General for Auditing at NASA from May 1, 1980 to November 14, 1981.

Before joining NASA, Mr. Gabriel served from January 16, 1977 to April 30, 1980 with the Surveys and Investigations Staff, U.S. House of Representatives, Appropriations Committee. He held the position of Assistant Director during his first two years with the Surveys and Investigations Staff and then became the Staff Director in his third year. As Director, he had responsibility for overseeing the audit and investigative work requested by the Chairman, House Appropriations Committee. He was also responsible for reviewing, approving, and co-signing all reports to the Chairman.

Earlier in his career, Mr. Gabriel served 20 years with the U.S. General Accounting Office and had diversified audit experience in the field and overseas and at GAO headquarters. He started service with GAO in 1956 in the Civil Division in Washington, D.C. In 1957, he transferred to the Philadelphia Regional Office and in 1967 he returned to Washinton, D.C. to serve in the Office of the Comptroller General on the Program Planning Staff. In June 1973, he was designated an Assistant Director in the Federal Personnel and Compensation Division and was placed in charge of a major portion of the Division's audit and investigative work.

Mr. Gabriel holds a B.S. degree in Accounting from the University of Scranton and M.S. degree in Management and Supervision from Central Michigan University. He is a C.P.A. (Virginia) and a member of the American Institute of C.P.A.s, Association of Government Accountants, and Association of Federal Investigators. He is also chairman of the Interagency Auditor Training Programs Committee of the USDA Graduate School.

Mr. Gabriel and his wife Nancy have three children and live in Alexandria, Virginia.

THOMAS J. BURKE

Thomas J. Burke is the Acting Assistant Inspector General for Investigations, Office of the Inspector General, U. S. Department of Agriculture.

Mr. Burke earned his bachelor's degree in criminology and completed post graduate work towards an advanced degree in public administration at New York University. He began his professional law enforcement career with the New York City Policy Department. During the Korean conflict he was recalled for service with the Office of Special Investigation, USAF, and remained there until he joined the U. S. Department of Agriculture in 1969.

During his tenure with the Office of the Inspector General, USDA, Mr. Burke has served as Assistant to the Inspector General, Chief of the Food Stamp Investigation and Enforcement Unit, Regional Director, Director of one of OIG Headquarters operational divisions, and Deputy Assistant Inspector General for Investigations.

Mr. Burke is a member of the Harvard Associates in Police Service, International Association of Chiefs of Police, National District Attorneys Association, National Association of Attorneys General, and the National Welfare Fraud Association.

OPENING REMARKS

Mr. GRAZIANO. I appreciate the opportunity to appear before you today to discuss the programs of the Office of the Inspector General and also provide our perspective on major programs and activities of the Department of Agriculture.

The greatest portion of our resources is directed to those agencies whose programs we feel most in need of management attention and most vulnerable to fraud, waste, and mismanagement. They are the Farmers Home Administration, the Agricultural Stabilization and Conservation Service, and the Food and Nutrition Service.

MONETARY RESULTS

In 1962, when the IG concept was first established in USDA, we identified $8.8 million in monetary results. In 1981, we identified $478.6 million.

Senator EAGLETON. Are you just going to read the underlined parts?

Mr. GRAZIANO. No; this is just a summary.

In addition, we had 1,051 indictments, an increase of 38 percent over the 652 indictments for 1980. In both years we had a 90-percent conviction rate for the criminal investigations conducted by OIG.

NEW INITIATIVES

Some initiatives we have undertaken since my appointment last July involve our fraud prevention efforts which we have assigned as high priority work; our extensive use of statistical sampling and computer matching procedures in our audit work which are used to help target firms, employees, and program recipients who may have committed fraud; our efforts in the debt management area and our participation with other IG's in joint efforts through the President's Council on Integrity and Efficiency to identify recipients of several entitlement programs who have improperly reported their income.

1983 BUDGET REQUEST

Our budget requirements for fiscal year 1983 are $43,918,000, an increase of $3,090,000 over fiscal year 1982. It includes increases of $1,234,000 to restore pay costs absorbed in fiscal year 1982, $250,000 for the special agent premium pay program which involves uncontrollable overtime, $225,000 for official duty station moves, and $1,381,000 for travel.

Senator EAGLETON. Would it be fair to say that if you get this increase of $3 million, this is really a static budget, which just keeps going what you have going; is that right?

Mr. GRAZIANO. Yes, sir.

Senator EAGLETON. You won't have to fire anybody or curtail your efforts?

Mr. GRAZIANO. That is correct, sir.

Senator EAGLETON. And conversely, you will not be able to hire any new people or expand your activities.

Mr. Graziano. Yes, sir. At that level, we would continue operations at the current level.

We are aware of the emphasis on reducing travel funds, but costs continue to rise because of increases in per diem rates and common carrier costs which directly affect our limited travel funds. Travel is essential to fulfill our audit and investigative responsibilities, and for this reason we are requesting an increase in travel funds.

FRAUD PREVENTION PROGRAM

Mr. Chairman, I would now like to discuss our perspective on the major programs and activities of the Department of Agriculture. Our new program for prevention of fraud, waste, and mismanagement is designed to increase the awareness for potential fraud in the Department, so that personnel will accept responsibility to be more accountable for program expenditures and operations. Through the investigations and auditing committee of the Secretary's Policy and Coordination Council, we will key on major issues related to fraud, abuse, and mismanagement; monitor the Department's implementation of OMB Circular A-123 instructions regarding the performance of vulnerability assessments and strengthening internal controls; direct experimental projects designed toward prevention; and develop and coordinate policies and standards for agency review, inspection, and compliance groups.

AUDIT RESOLUTION

One of the most significant undertakings during the past year was a departmentwide effort to resolve audits which had been issued for 6 or more months. As of April 1, 1981, there were 598 audits primarily involving FNS, the Farmers Home Administration, and the ASCS, that required resolution by September 30, 1981. Under the mandate from the Secretary and the Deputy Secretary, the Department reduced the backlog of unresolved audits to 18 by the given date. Resolution of the 18 audits was delayed pending the issuance of legal opinions, regulatory reforms, or the completion of investigations.

During 1981, USDA agencies established $50 million in claims as a result of costs questioned by audits. Of that amount, $36 million was assessed by the Food and Nutrition Service. We are continuing to monitor and control the audit resolution process.

DEBT MANAGEMENT

Our most recent efforts have concentrated on debt management, procurement, and property management. As of December 31, 1981, about $100 billion, or approximately 46 percent, of the money owed the Federal Government is due USDA. To improve debt management practices, the Department completed a two-phased debt management study in 1981. While there has been progress since that study, problems still exist. Agency internal accounting controls need to be further strengthened to provide accurate and timely debt management information. Some agency instructions still do not provide necessary guidance for uniform and effective debt management. Some agencies have not yet assessed the interest costs associated with different billing periods. In addition, delinquent payments are not always offset by payments due debtors from other departmental programs, and billings and collections are not always timely.

FOOD STAMP PROGRAM

The largest program in the FNS budget is the food stamp program. Its expenditures amounted to $11.4 billion in fiscal year 1981. Its authorization for fiscal year 1982 is $11.3 billion. A number of legislative and program efforts have been undertaken to reduce fraud and abuse in this program.

Senator EAGLETON. What page are you on now?

Mr. GRAZIANO. Page four.

WASHING OF FOOD STAMPS

Our Puerto Rico Suboffice has been investigating the Government Development Bank, which is an agent of the Federal Reserve Bank, for theft of large amounts of canceled food stamps. It is believed that the suspects were stealing the canceled food stamps, washing off the cancellation marks and again redeeming the food stamps as if they were new. On March 23, 1982, a joint OIG/U.S. Secret Service team arrested four of the suspects. They were in possession of more than $50,000 in canceled food stamps, over $15,000 in cash, and two loaded handguns. An exact dollar amount of the thefts has not been determined.

Senator EAGLETON. Is this unique? Is this the first time you have encountered this scrubbing up process?

Mr. GRAZIANO. Yes, sir.

Senator EAGLETON. That is a new gimmick.

Mr. GRAZIANO. Yes, sir, at this point in time. The San Juan Star states that the amount of theft may exceed $100 million, because the suspects had stated, at least some of the suspects, that they were washing between $50,000 and $100,000 in food stamps a day for the past 4 years.

Senator EAGLETON. Are you considering new printing techniques that could be used in the future; for example, printing food stamps in a way you couldn't scrub them? I am not a printer; I am not a lithographer. But if this has occurred in this one instance, the word gets around—there is a very good grapevine in the criminal world—and if food stamps as now currently issued and printed are susceptible to this kind of activity, maybe we ought to be thinking about some way to print them so they couldn't be scrubbed.

Mr. GRAZIANO. It is the endorsement that comes from the food retailer, where he places his stamp, that has been rubbed off, Mr. Chairman, and we are going to take a look and see what we can do.

Senator EAGLETON. One incident shouldn't cause us to collapse, but if the incident teaches us some lessons about future prevention, then we ought to both learn the lesson and apply the doctrine.

Mr. GRAZIANO. Yes, sir.

CERTIFICATION OF ELIGIBILITY

We are increasing our use of the computer matching techniques to identify certification problems. The integrity of the food stamp program is seriously threatened by losses from certification errors, especially the errors in income reporting and verification. Although the dollar loss per individual case is generally small, when considered in total, this is the most significant program loss. The Department is engaged in a concerted effort to restore integrity to the program by promoting the use of computer technology to match recipient-reported eligibility data with similar information maintained by other Federal and State agencies to assure that only eligible households receive correct benefits. FNS is planning to implement the recent statutory requirement for mandatory matching by January 1983.

UNDERREPORTING OF INCOME

Senator EAGLETON. I will interrupt there; maybe I am interrupting at the wrong time. But would you expand on that sentence a bit further back where you say, "Although the dollar loss per individual case is generally small, when considered in total, this is the most significant program loss." Expand on that. Maybe you do later on in your testimony, and if you do, I apologize.

Please give your name and title.

Mr. BURKE. My name is Thomas J. Burke. I am the Acting Assistant Inspector General for Investigations.

What that sentence relates to, sir, is the application certification process where the individual recipient comes into the local welfare office and applies for food stamps. It is at that point where we find errors, deliberate or otherwise. The applicant talks about her or his income and reduces it, underreports the income or increases the size of the family by one or two persons. This individually amounts to maybe $20 or $30. But when you consider the number of people that are applying for food stamps or have applied over the years, we are talking in the neighborhood of 21 million people who we are feeding today through the food stamp program.

Senator EAGLETON. I didn't hear the figure.

Mr. BURKE. About 21 million people, many of whom fudge on the income.

Senator EAGLETON. I got that part.

Mr. BURKE. We have established through the quality control system that the errors occur mainly in these two areas, and it is approximately 12 percent.

Senator EAGLETON. Twelve percent?

Mr. BURKE. And that equates to about $1 billion dollars a year.

Senator EAGLETON. $1 billion a year?

Mr. BURKE. Yes, sir.

Senator EAGLETON. So, it is your estimate that this underreporting of income or overclaiming of dependents is done in as many as 12 percent of the individual cases, and that totals out to $1 billion a year in overpayment?

Mr. BURKE. That is correct, sir.

Senator EAGLETON. All right, now what can we do about that? What can Congress do; do you need more laws? If you don't need more laws, what can you do administratively?

You better give your name and title too for the record.

Mr. PETERSON. I am Gerald Peterson, Acting Assistant Inspector General for Auditing.

I think, Mr. Chairman, the single most effective thing that can be done has already been legislatively mandated; that is, that we need to do the income verification, the matching, and verify that income prior to the person being placed into the food stamp program. What we currently are doing with our audit group is an after-the-fact event.

Senator EAGLETON. It might even be a couple of years later. We have to do better at that input level.

Mr. PETERSON. That is correct.

Senator EAGLETON. Now where does a person normally go to apply for food stamps?

Mr. PETERSON. A welfare office.

Senator EAGLETON. The welfare office doesn't have a computer terminal that plugs into the IRS and says, "Mr. Jones, you say your income is such-and-such and you have two kids. We just pushed a button, and it says your income is double what you say and you only have one kid."

STATE WAGE REPORTING REQUIREMENTS

Mr. PETERSON. Thirty-eight of the States, Mr. Chairman, have State wage reporting requirements as a part of the unemployment compensation function. In those States the income levels are immediately available to those welfare offices, usually from across the street, in other words, the Department of Labor.

Senator EAGLETON. But those are general categories. It doesn't have Tom Eagleton's specific wage; does it?

Mr. PETERSON. Yes, it does; it is specific by social security number.

Senator EAGLETON. Right across the street?

Mr. PETERSON. Typically, it is across the street. There is usually an unemployment compensation office within walking distance of a welfare office. Many of them are in the same building. But that is available, and we are currently using it. I think the last count that I saw is about 33 of the States are at least in some kind of a pilot program in the use of that data, and, of course, the Congress has mandated that that matching take place effective January 1983.

Senator EAGLETON. You think that is the way to go?

Mr. PETERSON. I definitely do.

Senator EAGLETON. Well, how about this; how about the Ronald Reagan approach. Here is $1 billion that is being spent illegally; we will just cut food stamps $1 billion and that cures it. Wouldn't that work?

Mr. GRAZIANO. Mr. Chairman, addressing the waste, fraud, and abuse——

REDUCTION OF FRAUD, WASTE, AND ABUSE

Senator EAGLETON. We are all against fraud. We are all against waste, so is the President, so is the Congress. Wouldn't it be a very simple thing, just to put in the appropriations bill that because there is $1 billion being squandered, as per your testimony, we hereby reduce the appropriation $1 billion. Would we cure the problem by doing that?

Mr. GRAZIANO. Mr. Chairman, we believe the approach of tightening the internal controls would assure that we would reduce the amount of waste, fraud, and abuse and still provide sufficient food stamps for those people who are eligible and entitled to have them, so that the direction we are moving in may establish the fact we can.

Mr. EAGLETON. You mean this new computer match which is to come in January 1983.

Mr. GRAZIANO. Yes, sir.

Senator EAGLETON. When that goes into effect in January 1983, that means that three-fourths of fiscal 1983 will be remaining; ergo, reduce the appropriation for food stamps by $750 million, because when that goes into effect, we will cure the problem; is that correct?

Mr. PETERSON. Mr. Chairman, I didn't mean to imply that there was nothing going on now. We are, in fact, monitoring wage matching, and we have 13 actively underway. There is some type of wage matching going on in a total of 33 States. So it isn't as though we have to wait until January 1983 to see some results. We are seeing results from that effort now, and I think by January 1983 we will see results across all of the States. But it does take some time for the States to develop the techniques to effectively use that program.

Senator EAGLETON. Let me ask this question, and then I shall yield to Senator Chiles.

Would this be a fair statement, Mr. Inspector General. Suppose in the Department of Agriculture budget we add a new line item, and the new line item was called "waste, fraud, and abuse." After we got through with the appropriation for the food stamp program, the new fraud, waste, and abuse item would reduce the appropriation for the food stamp program by $1 billion. That would be an overly simplistic way of approaching the problem; wouldn't you say?

Mr. GRAZIANO. Yes, sir. I do not believe by reducing the budget for the food stamp program we would see an automatic reduction in fraud, waste, and abuse. We would still have to address the problems.

Senator EAGLETON. You are absolutely correct.

Senator Chiles.

Senator CHILES. Mr. Chairman, I am skipping ahead, if I might ask one question and submit the rest.

Senator EAGLETON. Certainly.

Senator CHILES. I wanted to ask a list of questions of the Commodity Futures Trading Commission.

Senator EAGLETON. Do you want to address the Inspector General or the Commodity Futures Trading Commission?

Senator CHILES. Let me submit those for the record, and that won't disrupt your hearing. I think they can be asked for the record.

[CLERK'S NOTE.—Senator Chiles' questions and the CFTC'S responses appear on pp. 938 to 941.]

Senator EAGLETON. OK.

All right, we will go back, Mr. Inspector General. You were getting near the bottom of page 4 of your summary.

Mr. GRAZIANO. We covered some of that, Mr. Chairman, during our previous summary. I would like to continue on page 5, if I may, regarding how we encourage the States to lower their error rates.

Senator EAGLETON. I have a couple other questions on food stamps, because you are putting in the record the remainder of page 5, right?

Mr. GRAZIANO. Yes, sir.

FOOD STAMP LEGISLATIVE PROPOSALS

Senator EAGLETON. So let's finish up food stamps before we move on.

Mr. Inspector General, the President's budget contains several legislative proposals as part of its proposed appropriation bill. Would any of these proposals serve to decrease fraud and abuse in the food stamp program?

Mr. GRAZIANO. The 1981 farm bill that the President recently signed——

Senator EAGLETON. No; I am addressing—go ahead. The 1981 farm bill is enacted.

Mr. GRAZIANO. Well, they have a number of provisions that would relate to the tightened program operations including: requiring the States to match computer wage data, holding food stamp issuing agents liable for issuances to persons not qualified, and others such as allowing courts to add 18 months to the disqualification penalty.

Senator EAGLETON. Lots of things went in the 1981 farm bill to reduce fraud and abuse in the food stamp program. That is the law now. The 1981 farm bill is what gave the legislative mandate that as of January 1983, computer matching must be done. My question now applies to this year's budget, and in the budget, as an appropriation recommendation, the President requested more amendments to the Food Stamp Act. My question is with respect to that budget message; would any of the language changes that the President is recommending do anything to decrease fraud and abuse in the food stamp program?

FOOD STAMP ERROR RATES

Mr. GRAZIANO. I must say I don't know, Mr. Chairman.

Senator EAGLETON. Well, for the record, I can assure you none of the language applies to fraud and abuse; the changes are monetary. They are of the cut-a-billion-dollars type. The point I am making, I will state for the record, is that the changes the President is making in the budget are going to simply reduce the amount of money that poor individuals have to spend on food. That is clearly what the budget shows, and that is clearly what it reflects. Those words are coming out of my mouth, not out of your mouth, but I declare that to be the fact.

FOOD STAMPS

I have another question on food stamps. Mr. Inspector General, your statement indicates that the Food and Nutrition Service has just finished analyzing error rate data for the period October 1980 to March 1981. Question: How would the new error rate sanction program attain data soon enough to allow sanctions based on current error rates to be assessed against the States?

Mr. PETERSON. Mr. Chairman, my understanding of that is they would not be using current data for purposes of imposing the sanction. The data used goes back to a base period, and actually, I think that continues about 6 months in arrears. You do not have current data when you are sanctioning.

SMART CARD

Senator EAGLETON. I have a couple other questions. An article in today's Washington Post, April 1, 1982, headlined "'Smart Card' May Monitor Benefits," an article by Mr. Merrill Brown, New York dateline states, "Federal agencies are considering replacing food stamp coupons and social security checks with a new credit card capable of monitoring transactions and providing a merchant or bank with key personal information, officials disclosed today."

A couple paragraphs later, "USDA could begin testing the program as soon as this spring."

I will place the whole article in the record.

[The article follows:]

[From the Washington Post, April 1, 1982]

"SMART CARD" MAY MONITOR BENEFITS

(By Merrill Brown)

NEW YORK, March 31—Federal agencies are considering replacing food stamp coupons and social security checks with a new credit card capable of monitoring transactions and providing a merchant or bank with key personal information, officials disclosed today.

The card, developed primarily by the telecommunications arm of the French Government, is already being tested by banks and retailers in the United States and France.

Its use in transactions as big as this Nation's $11 billion food assistance programs would be a major development in so-called smart cards, or credit cards capable of recording and storing, on their own, each transaction by their user.

The new card resembles a conventional credit or electronic banking card. But it is "intelligent" in that it contains a microcomputer chip capable of storing or recording 100 or more transactions without having to connect with a computer bank, a requirement of the widely used bank cards.

The Agriculture Department which runs the food assistance programs, or the Social Security Administration would credit the account of a recipient with the amount of his monthly allocation. Each time the recipient used the card, it would record the transaction and show the user and merchant how much was remaining in the account.

USDA could begin testing the program as soon as this spring, and the Social Security Administration is in the midst of a "technical assessment" of the card, according to John R. Wicklein, associate commissioner for systems of SSA.

The social security system issues 40 million checks a month and the card would be used in that process, he said, noting that the agency's study will be completed next month. Defense Department officials are also looking at the card as a means for monitoring PX transactions and as a substitute for military "dog tags."

Use of the cards on an experimental basis at USDA is designed to cut fraud and waste, and effort that could begin as soon as next year. The Department also will study use of more conventional debit cards, which are used as checks to withdraw money and pay bills.

A request for bids from computer concerns could come from the Agriculture Department within weeks, according to G. William Hoagland, Special Assistant to the Secretary of Agriculture.

"We are definitely putting out a request and will be starting demonstrations," Hoagland said today. "We're not backing off this. Depending on how the project goes, if the technology and acceptance [are] there, we could modify the delivery system within 3 or 4 years. We have to bring the program into the 21st century."

In a statement to a conference on the card this month, Agriculture Secretary John R. Block said his agency was "vitally interested in applying new technologies to replace food stamps and other pieces of paper" associated with assistance programs.

Block, through a representative, told the conference of Federal and business officials in Scottsdale, Ariz., that the Department would seek proposals "by late spring to set up electronic transactional systems in a number of carefully selected States."

A member of an Agriculture Department task force on the issue, Richard Sprague, a New York consultant, said the biggest problem facing the food stamp program in instituting the system is the relatively high cost of installing machines to read the cards, particularly in small food markets.

"The main question from the Department's point of view and from my point of view is whether food retailers will participate," Sprague said. About 230,000 retail outlets are eligible to accept food stamps, he added, and although the cost of the equipment is declining, the card reader costs about $2,000.

The proponents of "smart cards," such as Roy D. Bright, managing director of Intelmatique, the French agency which developed the system, argue that the new card is foolproof.

"At every stage of use of the smart card, throughout its life, there is a built-in integrity," Bright said in an interview. "It is a self-contained transaction mechanism."

Arlen Lessin, chairman of Communications Consulting Corp., a consultant widely considered the foremost authority on the card's capabilities, said he did not believe the public should have personal security or "big brother" concerns about the card.

"Access to the information is at the command of the bearer," Lessin said. "It protects the public better than any technology that exists today."

The "smart card" equipment is being manufactured by three concerns—Flonic Schlumberger, a Belgian technology company; Philips Data Systems, a Dutch firm, and Citi Honeywell-Bull, a joint venture involving the U.S. company Honeywell Inc.

The French are on the verge of beginning the most significant trials of the card, involving as many as 50,000 cards and 250 point-of-sale terminals. A smaller trial is also planned by First Bank Systems, a $15 billion Minneapolis bank holding company.

MICHIGAN USE OF ON-LINE COMPUTER SYSTEMS

Senator EAGLETON. Did you see that article?

Mr. GRAZIANO. Yes, sir.

Senator EAGLETON. Would you educate me on what this is all about.

Mr. GRAZIANO. There are two counties in Michigan operating on-line computer issuance systems which eliminate ATP cards.

Senator EAGLETON. Eliminate what?

Mr. GRAZIANO. ATP's, authorization to participate cards.

Senator EAGLETON. That is the card we were talking about earlier.

Mr. GRAZIANO. Yes, sir.

In these systems a recipient must present a plastic computer card to an issuance point. The card is then read by a computer which determines the amount of food stamps to be issued and immediately debits the recipient's account for that month. This system prevents many of the problems associated with mailing the ATP's such as theft from the mails and the false loss report. The State feels that a substantial savings has resulted from this system.

One of the several alternative systems under consideration for a demonstration project is a project proposed by Honeywell in the State of Michigan which would replace the food stamps with a debit card. The so-called "smart card" is a credit card type medium with a microprocessor and memory imbedded into it. The recipient would be issued a card and a personal identification number and would use the card at the retail store level to buy food. By using either an automatic reader debit or an on-line system, the teller would check the amount of the allotment remaining and subtract the amount of the current purchase. The details of how the system would operate have yet to be worked out. But it has great potential for eliminating abuses, as I previously covered, regarding stolen food stamps, stolen and duplicate ATP's and trafficking.

Senator EAGLETON. And what?

Mr. GRAZIANO. And food stamp trafficking, Mr. Chairman, the ability of people to take food stamps and discount them.

In the long run there may be administrative savings from the reduced paperwork and mailings. So it is at the point where it has not yet been implemented on a very wide basis, and that during the test program we can only say it has great potential. But we have not been able to totally evaluate it.

Senator EAGLETON. At the outset, you said some States have been experimenting with this.

Mr. GRAZIANO. Michigan.

Senator EAGLETON. How long have they been experimenting with it?

Mr. GRAZIANO. I believe it just started a few months ago.

Senator EAGLETON. So we don't really have a track record yet.

Mr. GRAZIANO. No, sir, not at this time.

Senator EAGLETON. Where do you plan to test this out, or have you decided?

Mr. GRAZIANO. We are only monitoring Michigan at this point.

Senator EAGLETON. The news article says USDA was going to test this out, at least that is the way I recall reading the news article.

FNS DEMONSTRATION PROJECT

Mr. BURKE. Mr. Chairman, in this instance they are pretty accurate. The Food and Nutrition Service has what they call a demonstration project in which they will finance and monitor the operation of this. It is a prototype, and they are going to use it in Michigan. We are going to evaluate at every step and see if it has potential, or doesn't have. We will see what the pros and cons are before we move it beyond the area where it is being tested.

Senator **Eagleton**. You will have to evaluate it in a whole host of ways. You will have to evaluate it in terms of forgeability; can this card be forged or tampered with or altered? You will have to evaluate it in terms of cost effectiveness, what is the cost of the program and its functionality?

Will you evaluate it in this context—big brotherism? You may recall back 7 or 8 years ago during the Nixon administration that there was a proposal for the U.S. Government, in essence, to have one colossal computer—I guess bigger than the State of Rhode Island—and into that computer would go everything about everybody: Social security number, veterans, IRS, Census Bureau. You name it, it would go in. Then, as different things developed, people applied for this benefit or a housing loan, you could push the old button and out would come all there is to know about Mr. X. Does this test-run program in Michigan lead us in that direction?

Mr. **Burke**. Negative, Mr. Chairman. Big brother is not watching. The plastic card is just that. It looks like an American Express card, and imbedded into this card is a microchip which is read by a machine. The microchip identifies Thomas J. Burke, family of four; they are entitled to $200 a month in food stamps. Every time Thomas J. Burke goes to the grocery store, it subtracts from that $200 what he has purchased and keeps a running tab. He can make 100 trips to the grocery store before he has to take the credit card back to the county. They will then take out the old chip and put in a new chip which brings his account up to date. So it has the potential of eliminating the food coupons themselves. It eliminates the need for the mailing of the voucher, called the ATP, and it eliminates the administrative folderol that goes with those two things. It does establish the need for the plastic card and new chips and things of this nature. But Honeywell—I attended their demonstration about 2 months ago—has invited the Inspector General to take the card and see if we could falsify, reproduce it, do whatever we would have to do to fraudulently do it. We have accepted that challenge.

Senator **Eagleton**. Do you have resident in-house forgers?

Mr. **Burke**. We are going to try.

But big brother is not watching. The data on that chip relates solely to the individual, the family, the food stamps, and the amount of money they are entitled to each month. That is all that is on there.

Senator **Eagleton**. By way of analogy, it is something similar—of course, it is being done in banking already—but is it something similar to when you go to the supermarket and they have all these cans they put through the terminal and it says you have a can of peas and it is 70 cents, or whatever.

Mr. **Burke**. Very similar.

PERCENT OF STORES SELLING ILLEGAL ITEMS

Senator **Eagleton**. I am going to read you a quote from the President's press conference last night and see if you can shed some light on this. The question was asked by one of the reporters on the fairness of budget cuts, and here is the President's answer. I will read the entire answer, but there is a part of it I want to probe with the Inspector General or anyone else at the table.

> Well, I would answer it by saying that social security which over the last—[pause]—or social security, we haven't touched Social Security—[pause]—food stamps, over the last 15 years increased 16,000 percent.

Now here is the part I want to probe.

> And just recently we have been doing some investigating so that we can intelligently treat with a program of that kind, and we have found that in the first investigation that 57 percent of the stores that were investigated are selling items for food stamps that are banned, that food stamps are—[pause]—it's illegal to use food stamps to buy those things.

And then on to another question.

Now, who has been making that investigation, and are the results as described by the President found in the first investigation, that 57 percent of the stores that were investigated were selling items for food stamps that are banned? Could any of the witnesses shed some light on this?

Mr. BURKE. Yes, sir, Mr. Chairman, I heard the President say that last night.

Senator EAGLETON. Was this accurate?

Mr. BURKE. Yes sir, give or take one half a percentage point. What he is basing the information on is within the FNS there is an organization called food stamp compliance, and they are responsible for investigating the retail stores. They determine whether or not stores are selling recipients tissue paper, toothpaste, or beer or wine, or just food. And last year, they conducted something in the neighborhood of 4,700 of these retail investigations.

Senator EAGLETON. How many is that?

Mr. BURKE. Approximately 4,700. And of that 4,700, approximately 2,700 were found to be violating to some degree the rules of the food stamp program. Some may have just sold toothpaste or a frying pan or some hard or soft goods other than food. I think if you take the 2,700 out of 4,700, you are going to come out with about the same 57 percent.

Senator EAGLETON. Do you have a copy of that report with you?

Mr. BURKE. I do not; but I have the stats back in my office.

Senator EAGLETON. Was the report put into final form and published?

Mr. BURKE. That was my concern last night. I don't think it was. I don't really know about a formal report. I can check on it, because that unit doesn't work for the Inspector General; they work directly for FNS. But I do know they maintain all those statistics, and I have a copy of a generalization of their bottom line.

Senator EAGLETON. So it is part of the Food and Nutrition Service—FNS. There is a section called food stamp compliance, and it was done by that division of FNS. Is anybody here from FNS?

[No response.]

Bob Sherman, could you go—Mr. Sherman is with the Department of Agriculture and monitors these hearings to see that there is nothing subversive going on—could you go to the phone and have someone from the Food Stamp Compliance Division, someone of authority, come over and bring with him or her the report that is the backup for the President's statement in last night's press conference.

Mr. SHERMAN. Yes, sir.

Senator EAGLETON. We are going to be here a while. Have them bring several copies of the report, because other members of the committee will want them.

Mr. SHERMAN. Yes, sir.

Senator EAGLETON. We will probe that a little later on this morning. All right, we are back on page 5.

Mr. GRAZIANO. Mr. Chairman, I think we covered what we are trying to do and that is to encourage the States to lower their error rates. Congress enacted, as part of the FNS quality control system, a revenue enhancement and sanction system. FNS recently reviewed the quality control data and payment error rates to determine each State's liability for sanctions or eligibility for enhanced funding. Fourteen States were subject to fiscal sanctions ranging from $107,000 to $3.5 million because of their high error rates. The State Governors were notified of their States' fiscal sanctions but were informed that their sanctions—

Senator EAGLETON. Do you have with you a summary sheet of the 50 States or at least the 14 States that are the most grievous violators or have the most grievous error rates?

Mr. GRAZIANO. Yes, sir.

Senator EAGLETON. Could I have a copy of that?

Mr. GRAZIANO. Yes, sir, we will submit it.

Senator EAGLETON. Could you submit it here?

Mr. GRAZIANO. Yes, sir.

FOOD STAMP PROGRAM, TABLE OF STATES

Senator EAGLETON. All right, I will put in the record a one-page document entitled "Food Stamp Program, Table of States." The table includes a listing of States, their error rates, dollars issued in error, and number of cases in error, and it lists about 25 States. This is not all 50 States, is it?

Mr. PETERSON. No, sir.

Senator EAGLETON. It is not all 50, but a goodly number.

Mr. GRAZIANO. Those are the States that have over 16 percent.

Senator EAGLETON. No; it looks to me they have over 11.50 error rate. Who is the statistician?

Mr. FISCH. It is everything over 11.5 percent.

Mr. GRAZIANO. I am sorry, I was misinformed, Mr. Chairman.

[The document follows:]

TABLE OF STATES WITH HIGH ERROR RATES, DOLLARS ISSUED IN ERROR, AND NUMBER OF CASES IN ERROR

State	Overall adjusted error rate[1] [2] (Percent)	Estimated monthly payments in error[2] (Million)	Estimated No. of cases Ineligible	Estimated No. of eligible cases overissued
Alaska[3]	22.37	$0.6	1,964	912
Oregon	20.46	2.4	2,886	14,711
Virgin Islands	19.71	.3	702	570
New York	19.22	15.2	59,860	55,639
District of Columbia	19.13	.8	2,590	3,364
Arizona[3]	18.69	2.0	6,491	4,615
New Hampshire[3]	17.40	.4	1,714	1,672
Montana[3]	17.37	.4	1,685	1,182
Maryland[3]	16.69	2.5	11,817	8,658
Connecticut[3]	16.01	1.0	5,402	4,257
North Carolina[3]	15.80	3.9	10,753	11,244
New Mexico[4]	15.32	1.2	3,797	4,370
Florida[3]	14.99	6.7	23,543	24,546
Kansas[3]	14.58	.7	2,936	2,232
Tennessee[3]	14.43	4.4	16,570	15,095
Colorado[3]	14.32	1.2	4,021	4,190
Wisconsin	14.32	1.3	6,423	5,041
Puerto Rico[3]	13.93	10.5	27,680	31,364
Pennsylvania	13.56	5.8	29,970	18,847
Rhode Island[4]	13.45	.5	1,573	2,308
Massachusetts[3]	13.20	2.3	9,523	9,523
Nebraska[4]	13.18	.4	1,325	1,945
Wyoming	12.64	.1	580	124
National average	12.60	121	....	....
Georgia	12.56	3.5	10,762	10,550
Michigan	12.50	4.5	23,863	13,443
Mississippi	12.42	2.6	5,956	10,537
Oklahoma	12.24	.9	5,048	3,241
Washington	11.94	1.7	4,707	7,813
New Jersey	11.87	2.8	11,378	9,795
California	11.62	6.5	25,518	28,326
Illinois[4]	11.50	5.3	17,434	17,823

[1] This is the FNS validated error rate. It was not used in all cases for sanction as FNS used the lesser of State reported error rates or the FNS validated rate.

[2] Based on March 1981 issuance figures. Includes both over and under issuances.

[3] Sanctioned State.

[4] Enhanced funding State.

ERROR-RATES BY STATE

Senator EAGLETON. Reading down the list, Alaska leads the list. Alaska, 22 percent; Oregon, 20 percent; Virgin Islands, 19.7; New York, 19.2; District of Columbia, 19.1; Arizona, 18.6. Governor Babbitt out there in Arizona says the States can run everything much more efficiently than the Federal Government; he is a very articulate spokesman for new federalism. I wonder if he knows Arizona has one of the worst records in the country. He ought to know these facts.

North Dakota, 17.4, Montana, 17.3; Maryland, 16.6; Connecticut, 16; North Carolina, 15.8; New Mexico, 15.3; Florida, 14.9. Governor Graham of Florida is an exponent of new federalism.

Kansas, 14.5; Tennessee, 14.4; Colorado, 14.3; Wisconsin, 14.3; Puerto Rico, 13.9; Pennsylvania, 13.5; Rhode Island, 13.4; Massachusetts, 13.2; Nebraska, 13.1; Wyoming, 12.6; Georgia, 12.5; Michigan, 12.5; Mississippi, 12.4; Oklahoma, 12.2; State of Washington, 11.9; New Jersey, 11.8; California, 11.6; Illinois, 11.5. I am holding my breath. Missouri didn't show up on the list.

Now let's see, is there a dollar figure; estimated monthly payments in error, that is the next column. I won't read it out, but you compute out the cost of this kind of error rate.

Mr. PETERSON. That is correct.

Senator EAGLETON. And it can cost a lot of dollars.

That leads me to this question. The President in his budget assumes that we will achieve a 3-percent error rate nationwide by October 1, 1982. We cut off the sheet at 11.5 percent. I don't know how many States I read off, but it looks like about 30. Well over half of the States had an error rate exceeding 11.5 percent, and the President says that all States are going to have an error rate by October 1, 1982, of 3 percent. Do you think that is attainable?

Mr. PETERSON. That is not attainable without drastic action by many of the States.

Senator EAGLETON. Therefore, since it is not attainable, there is going to have to be more money spent on food stamps than if it were attainable?

Mr. PETERSON. I think, Mr. Chairman, it is obvious, however, that significant decreases in the error rate are in fact attainable.

Senator EAGLETON. Oh, yes, I would hope that Alaska could do better than a 22-percent error rate, but I would have grave doubts if Alaska can go from 22 to 3 percent by October 1, 1982.

STATES WITH BEST RECORDS

What are the States that have the best? Have you got any of those figures with you? Which are our good, obedient States?

Mr. PETERSON. I can give you the five States, Mr. Chairman, that received enhanced funding.

Senator EAGLETON. They get enhanced funding by efficacious endeavors?

Mr. PETERSON. Primarily either meeting a standard or reducing the error rates.

Senator EAGLETON. Give us those.

Mr. PETERSON. The States that received enhanced funding are Nevada, with an error rate of 5 percent; North Dakota, with an error rate of 6.9 percent.

Senator EAGLETON. North Dakota?

Mr. PETERSON. North Dakota.

Senator EAGLETON. What is the number on that?

Mr. PETERSON. North Dakota, 6.9 percent. Illinois, with an error rate of 11.5 percent. You also see them on that high list, but they were able to reduce the error rate significantly. Nebraska, with an error rate of 13.1 percent, again because of reduction; and Rhode Island, with an error rate of 13.4 percent.

Senator EAGLETON. Those five States are getting enhanced revenues, because they have significantly reduced their error rate.

Mr. PETERSON. That is correct.

Senator EAGLETON. So we are giving a gold star, to Rhode Island for bringing its error rate down from 13.4 percent, but they would have to go lickety-split to get down to 3 percent.

Mr. PETERSON. They certainly would have to go double time.

PHOTO INDENTIFICATION CARDS

Senator EAGLETON. Go ahead, Mr. Graziano.

Mr. GRAZIANO. At the top of page 6, Mr. Chairman.

The use of photo identification cards is important to properly identify recipients when issuing benefits through the authorization to purchase system. The use of photo identification cards is presently being implemented in all project areas with 100,000 or more food stamp participants. Moreover, FNS, in consultation with OIG, may require photo identification cards in other project areas if warranted by such problems as a large number of duplicate issuances.

I would like to move on to the Farmers Home Administration programs, unless you have some more questions regarding food stamps.

FARMERS HOME ADMINISTRATION

As of September 30, 1981, Farmers Home Administration had about 1.4 million active loan borrowers and a loan portfolio of about $55 billion. The agency is making progress in its efforts to develop and implement an effective accounting and financial information system. We are monitoring the planning and operational aspects of this project.

The Secretary has asked for better targeting and resource management to minimize the impact of budget reductions. We will be targeting our resources into the areas which have been the most trouble-prone in the past, including the agency's centralized finance office operations, the business and industrial loan programs, farm operating and emergency loans, interest credit provisions of the rural housing program, and graduation of borrowers to private credit sources.

FmHA STATISTICS

Senator Eagleton. Before you leave that topic, have you brought with you statistics as to delinquencies, uncollectibles, defaults, or backup statistical data on the Farmers Home Administration? They operate a wide array of credit programs. For instance, in your testimony you specifically mentioned the business and industrial loan program, the farm operating and emergency programs. Do you have any statistics on those? I am interested both in delinquencies, and I am interested in uncollectibles. They may not always be the same.

Mr. PETERSON. Mr. Chairman, I would like to submit most of that data for the record. We do have some of it with us. As of January 1, 1982, the delinquencies were up to $4.6 billion.

Senator EAGLETON. In which category of programs?

Mr. PETERSON. That is the Farmers Home programs.

Senator EAGLETON. All lumped together?

Mr. PETERSON. All of them lumped together.

Senator Eagleton. That was as of January 1982?

Mr. PETERSON. January 1982.

Senator EAGLETON. Delinquency of $4.6 billion?

Mr. Peterson. $4.6 billion.

Senator EAGLETON. Do you know what it was in January 1981?

Mr. PETERSON. $2.6 billion.

Senator EAGLETON. 2.6 was billion dollars, not percent?

Mr. PETERSON. Yes.

Senator EAGLETON. So delinquencies in January 1981 were $2.6 billion and January 1982 $4.6, and that is all Farmers Home.

B. & I. GUARANTEE PROGRAM

Mr. PETERSON. That is everything that is on the budget. It does not include the B. & I. guarantee program, Mr. Chairman. I think there was another $250 million that was in foreclosure in the B. & I. program.

Senator EAGLETON. Again, that is a January 1982 figure?

Mr. PETERSON. That is a January 1982 figure, yes.

Senator EAGLETON. Do you have a January 1981 figure for that B.. & I.?

Mr. PETERSON. I do not have one with me.

Senator EAGLETON. Could you have one of your staff go to another phone and get me the B. & I. figures for January 1981?

Mr. PETERSON. I have June 1981.

Senator EAGLETON. OK.

Mr. PETERSON. As of June 1981 FmHA had liquidated 144 B. & I. loan borrowers. Liquidations totaled $77 million for which FmHA incurred losses of $40 million.

Senator EAGLETON. June 1981—this is B. & I.—$77 million

Mr. PETERSON. Yes; that had been liquidated by FmHA.

Senator EAGLETON. Is that figure for January 1982 a hard figure?

Mr. PETERSON. Let me correct the record. There were an additional 254 borrowers in liquidation as of June 1981.

Senator EAGLETON. We are talking January 1982.

Mr. PETERSON. No; that is June 1981 with $216 million.

Senator EAGLETON. So between June 1981 and January 1982 these so-called liquidations tripled.

Mr. PETERSON. At the present time, June 1981 is all I have hard figures on.

Senator EAGLETON. And between January 1981 and January 1982, Farmers Home went from $2.6 billion—what would be the label you would apply to that, delinquency?

Mr. PETERSON. Delinquency, that is correct.

Senator EAGLETON. Mr. Inspector General, having heard those figures, how much, if any, of that, based on your professional experience, do you attribute to fraud as opposed to a downturn in the economy as it applies to the American farmer?

Mr. GRAZIANO. Mr. Chairman, I would attribute most of it to a downturn in the economy.

Senator EAGLETON. These aren't cheaters, forgers, miscreants.

Mr. GRAZIANO. No, sir. A number of loans were made a few years ago, and at this point in time with the downturn in the ecomony, I believe that people are having great difficulty.

1980 GRAIN EMBARGO

In January 1980, in the Agricultural Stabilization and Conservation Service programs, President Carter ordered grain deliveries to the Soviet Union suspended and directed USDA to take all necessary actions to stabilize the market. We monitored the suspension activities and recently issued a report on USDA's involvement. In addition to various management improvements, we recommended, and the Department agreed, that the amounts claimed on assumed exporter contracts be reduced by about $10.5 million.

Senator EAGLETON. I read that and heard you, but don't understand it. What is that?

Mr. GRAZIANO. Mr. Peterson will expand.

Senator EAGLETON. What does this mean? "In addition to various management improvements, we recommended, and the Department agreed, that the amounts claimed on assumed exporter contracts be reduced by about $10.5 million."

Mr. PETERSON. Mr. Chairman, we audited each of the export companies as we bought the contracts as part of the grain embargo.

Senator EAGLETON. When the embargo was put on, grain exporters had contracts in place to export grain to the Soviet Union. They were embargoed. Therefore, they were hurt financially, and the Government was going to attempt to hold them harmless.

Mr. PETERSON. That is correct. But we were attempting to buy those contracts, Mr. Chairman, at cost rather than at a windfall profit to the exporters. As a part of that audit effort, we reduced the price of those contracts by $10.5 million.

AUSTRALIAN MEAT INSPECTION

Mr. GRAZIANO. In July 1981, a USDA meat inspector at a processing plant in San Diego sampled and retained three cartons of "boneless beef," imported from Victoria, Australia, because it was darker and stringier than normal. After sampling for species identification, the cartons were found to contain horse meat. A joint cooperative effort was entered between United States and Australian officials to determine the source and extent of the meat substitution. Australian officials have arrested and charged several persons with crimes. Our investigations stemming from the Australian meat import substitutions have uncovered no evidence of conspiracy or fraud on the part of U.S. citizens. We continue to monitor investigations by the Australian Royal Commission and the Federal police. Officials in both nations believe that the illegal substitution of meat products from Australia has ceased.

COSTA RICAN MEAT

In another problem involving meat imports, the Department announced that on March 26 it will halt meat imports from Costa Rica following the recent discovery that meat shipped to the United States from that country had soil substituted for meat, and we had accumulated evidence of the preparation and submission of fraudulent health certificates. Our investigation revealed this contaminated imported meat had been moved into the U.S. consumer channels after U.S. inspectors rejected the meat at port of entry. I returned from Costa Rica yesterday. The Costa Rican Government has been very cooperative and immediately implemented procedures we have recommended to restore the integrity of the Costa Rican inspection system. We offered, and Costa Rica accepted, technical assistance to facilitate the relisting of their meat plants in the shortest possible time.

Senator EAGLETON. I think this is a very important area for you to pursue, Mr. Inspector General. Let me explain why. At a time when there is such significant distress in American agriculture—we all know about it and we can talk some of these delinquency figures and what have you—many American farmers feel beset upon that during this time of distress, a further complicating factor in their malaise is the importation of meat and meat products that do not come up to American standards in terms of health safety and inspection and the like. You have mentioned two incidents here in your testimony—Australia and your recent visit to Costa Rica. The allegation that I hear from Missouri meat producers goes beyond just those two countries—and you are not saying these are the only two incidents, you highlight these two—but would refer to Argentina, Poland, and perhaps others. And so I urge you, and I know you are vigilent in the discharge of your duties as a whole, but I urge you to be especially vigilent in this area to reveal the facts as you find them. You told us now about this Australian matter and the Costa Rican matter, and we will let the chips fall where they may. Conversely, if meat coming in from country *x* is in good, edible, healthy shape, that should be revealed as well. We don't want to paint an erroneous picture. But I hear very often from Missouri pork producers, Missouri beef producers, and others, about situations such as you described. I urge you to stay on top of this, as indeed I believe you are.

Mr. GRAZIANO. Yes, sir, we will.

STAFFING OF AUDITORS AND INVESTIGATORS

Senator EAGLETON. How many professional investigator/auditor types are on your staff?

Mr. GRAZIANO. We have approximately 240 criminal investigators and close to 400 auditors.

Senator EAGLETON. In another hearing with another committee—the Governmental Affairs Committee—we put into the record the professional staffs of the various Inspectors General in terms of size. I don't have it in my head, and I don't have the sheet here with me. Off the top of your head, do you know how the size of your professional staff compares with other IG's?

Mr. GRAZIANO. I believe, Mr. Chairman, we are among the largest in the total complement in auditors and criminal investigators. However, I am not sure who is the largest; perhaps HHS is.

Senator EAGLETON. It is hard to compute the Department of Defense, because they really don't have a comparable setup to yours at the present time. They have investigators assigned to the Army, Navy, Marine Corps, and so forth.

Are you satisfied you can do the job the Congress has assigned to you by law with 640 professionals?

Mr. GRAZIANO. Sir, I think everyone always feels they can use more people than they have. But we believe that as we perceive our mission at this point in time, Congress has provided us with adequate resources to do the job.

Senator EAGLETON. Thank you very much, Mr. Inspector General and the members of your staff. As soon as the people from FNS arrive, we will return to our discussion on food stamps.

[CLERK'S NOTE.—Further discussion of the illegal use of food stamps appears on pp. 883 to 900.]

SUBMITTED QUESTIONS

[The following questions were not asked at the hearing, but were submitted to the Office of Inspector General for response subsequent to the hearing:]

OFFICE OF INSPECTOR GENERAL

QUESTIONS SUBMITTED BY SENATOR COCHRAN

TRANSFER FROM FOOD AND NUTRITION SERVICE

Question: You are requesting a $3,117,000 decrease in the amount to be transferred from the Food and Nutrition Service. Does this mean you will be doing less in the food stamp and other Food and Nutrition Service areas?

Answer: The decrease in the Food Stamp transfer from FNS is an accounting procedure and not a decrease in auditing and investigative coverage of the Program. In FY 1982 he Congress increased the Food Stamp transfer amount to OIG by just over $3 million in order to fully fund the agency. The decrease in the transfer amount this year is only to revert that increase back to the agency's direct appropriations.

PREMIUM PAY PROGRAM

Question: You indicated that since 1977 you have had a premium pay program to compensate your agents for after-hours work. You stated that this is less expensive than paying time-and-a-half. Please explain this program, i.e., do you pay by the hour for overtime; what is the rate paid, etc.?

Answer: This program pays our agents when hours of duty cannot be administratively controlled; for example, when conducting interviews, surveillances, undercover work, meeting informants, and so forth. The rate of pay is a percentage of the agent's biweekly pay based on the number of uncontrollable overtime hours worked in a week. This ranges from 10% to a maximum of 25% and is computed on a quarterly basis. Premium pay is based on the lower of the agent's salary, or a GS-10 step 1.

Listed below is an example which shows how the program provides a cost savings to the government.

Based on a 12-week period - GS-9 Step 1 - biweekly $755.20; hourly $9.36

Overtime	No. of hours	Rate PH	Total	Savings Using Premium Pay	
Directed	36 (3 per wk.)	$14.04	$ 505.44	$ 52.32	10%
Unscheduled (PP)..	36	10%	453.12		
Directed	60 (5 per wk.)	$14.04	$ 842.40	$162.72	19%
Unscheduled (PP)..	60	15%	679.68		
Directed	84 (7 per wk.)	$14.04	$1,179.36	$273.12	23%
Unscheduled (PP)..	84	20%	906.24		
Directed	108 (9 per wk.)	14.04	$1,616.32	$483.52	30%
Unscheduled (PP)..	108	25%	$1,132.80		

Question: Is this procedure unique for Offices of Inspectors General?

Answer: No, it is used by other departments, for instance, Immigration and Naturalization Service. Before our program was initiated we met with them and used their program to help set ours up.

Question: From where does your authority to utilize such a program come?

Anwser: Authorizing Legislation is in 5 U.S.C. 5545(c)(2), Section 550.151 of the Federal Personnel Manual Supplement 990-2, and prior approval of the Office of Personnel Management.

Question: For the record, please provide a listing for the years 1977-1982 the amounts used for the Premium Pay Program. Also, show the amount saved for these years.

Answer: We do not have information available to provide the amount of savings for these years but the example provided above shows the amount and percentage of savings for a typical GS-9 step 1.

The requested information on the amount of premium pay for the years 1977-1982 follows:

PREMIUM PAY

Year	Total Amount
1977	$325,000
1978	389,000
1979	508,000
1980	555,000
1981	640,000

DUTY STATION MOVES

Question: You indicated that seventy percent of your auditor/investigator vacancies are filled by personnel from other Government agencies and that you are requesting funds for the increased costs of cross-training and changing of duty stations. Do you feel this is the most cost-effective way in which to fill these vacancies? Please explain.

Answer: We believe it is the most cost effective method since it provides the agency experienced, capable personnel able to "hit the road running" when they are first employed. Obtaining journeyman level auditors and investigators from other Government agencies assures that we get employees who are familiar with Government procedures and practices and can start by doing high level, sophisticated audits and investigations. If we were to fill these vacancies from the private sector, we would expect a minimum of six months on-the-job training in order to orient the new employees to Government regulations and requirements. This would prevent the employees from being fully productive for that period. The same holds true if we tried to upgrade a large number of our support staff through upward mobility programs. The training and loss of productive time would be even greater. Overall we feel this recruitment practice provides the agency and the Government the most efficient and cost-effective method of filling our auditor and investigator vacancies.

TRAVEL

Question: You are requesting an increase of $1,381,000 for travel. I understand that $6,307,000 is available for fiscal year 1982. You stated that increased travel costs have impacted negatively on the program of the Office of the Inspector General and has been a deterrant in your efforts to reduce fraud, waste, and abuse in USDA programs. Do you feel that your fiscal year 1983 travel request of $7,688,000 is adequate to carry out your responsibilities and mission?

Answer: With our present personnel level we feel this amount is adequate at this time.

AUDIT AND INVESTIGATIVE COVERAGE

Question: In terms of dollars and personnel, what activites within USDA have been given the kind of audit coverage that is required?

Answer: Successful performance of our mission dictates an organization with the capability to examine, analyze, and assess risks and vulnerabilities in both proposed and existing programs and operations. Information from many sources enables us to do this. The resulting plans allocate our audit and investigative resources to areas with the highest vulnerability to fraud, abuse, and waste. However, I must stress that our plans are constantly reviewed and as high priority needs develop, resources are redirected. In a dynamic environment such as USDA, the process of evaluating program risks and allocation of Office of Inspector General (OIG) resources is continuous. The following are some examples that demonstrate our continuous review.

Our most recent efforts have concentrated on debt management, cash management, internal controls, procurement and property management. Our records show that we used 10.2 percent of our direct workyears in these areas in Fiscal Year (FY) 1978, but had increased systems analysis both for prevention and detection of fraud, abuse, and waste. This activity has increased significantly and about 40 audit workyears are planned during FY 1982 on Federal systems alone. We also use this type of analysis in our audits of State data base systems used in the Food Stamp; Women, Infants and Children; and Child Nutrition Programs.

Much of our redirected efforts have occurred in the administration of the Food Stamp Program and in the loan making and servicing policies of the Farmers Home Administration. In the Food Stamp Program, we have stressed computer matching, photo identification and first endorser liability to improve the integrity of certification and redemption operations. Yet the percentages of our direct workyears devoted to the Food Stamp Program have not changed dramatically. The percentages have fluctuated from 23.5 percent of direct workyears in FY 1978, 22.6

percent in FY 1979, 25 pecent in FY 1980, and 21.1 percent in FY 1981. On the other hand, in the Farmers Home Administration area, our overall efforts have increased significantly from 17.9 percent of direct workyears in FY 1978 to 28.1 percent in FY 1981. This increased allocation has occurred even though we have changed our emphasis from routine cyclic audits to broader based audits using statistical sampling techniques. In ASCS we have also redirected our efforts from routine cyclic audits of local offices to those that are broader based, such as monitoring the USSR grain suspension and evaluation of Commodity Credit Corporation's Commodity Loan Program. Our overall efforts in ASCS have been reduced from 14.2 percent of direct workyears in FY 1978 to 9.1 percent in FY 1981.

Question: In those same terms, what activities have not been given the required audit coverage?

Answer: We plan our work by fiscal year based on available resources which are utilized according to priorities established by the Inspector General, with the Assistant Inspectors General for Auditing and Investigations coordinating with the Regional Inspectors General, and the Program Offices concerned. The workplan is adjusted at least semiannually to reflect unexpected problems, new requirements and other necessary changes.

Question: What will your priorities be for fiscal year 1983?

Answer: We have not as yet held our planning sessions for fiscal year 1983. However, the greatest portion of our resources will be directed to those agencies whose programs we view in need of management attention and most vulnerable to fraud, waste and mismanagement--Farmers Home Administration, Agricultural Stabilization and Conservation Service, and Food and Nutrition Service.

Question: Are the agencies within the USDA doing satisfactory self-audit and self-evaluation or could their efforts along this line be improved?

Answer: One of our major initiatives since my appointment last July has been to direct the development of a new program for the prevention of fraud, waste, and mismangement. We anticipate that this program will promote better management of USDA funds and other resources. The program is designed to create an awareness in the Department so that personnel will accept their responsibility to be accountable for program expenditures and operations. We plan to implement our program through the Secretary's Policy and Coordination Council, which is composed of the Department's staff offices. The Council was established to resolve issues and give policy direction to USDA components. I chair the Investigations and Auditing Committee of this Council which will key on major issues related to fraud, abuse and mismanagement; monitor the Department's implmentation of Office of Management and Budget Circular A-123 regarding the performance of vulnerability assessments; direct experimental projects designed toward prevention; and develop and coordinate policies and standards for agency review, inspection and compliance groups.

NON-FEDERAL AUDITORS

Question: To what extent are you using non-Federal auditors?

Answer: At the present time, 14 Certified Public Accounting firms are under contract with the Office of Inspector General to perform a variety of audits on a task order basis for the Regional Inspectors General. More than 450 audit assignments have been given to the firms to date.

Attachment P to OMB Circular A-102 also calls for the use of non-Federal auditors. The attachment requires State and local governments and Indian Tribal governments that receive Federal assistance to arrange for organization-wide financial and compliance audits to be performed by independent State and local government auditors or independent public accountants at least once every two years. Under the cognizant audit agency structure established by OMB, we have oversight responsibility for 79 State agencies, 5 of the 300 largest local governments that are the major recipients of Federal aid and all of the school districts in Arkansas, Georgia, Maryland, Minnesota, Oregon, Utah and Puerto Rico. We are also responsible for six departments of the 300 largest local governments that are major recipients of Federal aid. In each of these instances we are responsible for providing guidance, evaluating the quality of the audit work and issuing the reports upon receipt from the non-Federal auditors.

Question: What is the quality of work performed by these non-Federal groups during the past year?

Answer: Generally, our experience to date has been satisfactory. We have had only limited experience with State and local audit organizations performing audits under OMB Circular A-102, due to the fact that our regulations were issued in November 1981. Over the next year we expect to work closely with many of these organizations to implement the A-102 concept. Regarding the CPA firms under contract with us, we are confindent that the work performed by these firms will continue to improve, as we both gain experience and proficiency in the contracting process.

Question: What is in the budget for contract audit services?

Answer: One million dollars is in our budget for contract audit services.

Question: Please provide, for the record, a table showing how many and what types of audits have been contracted for, and how much money has been programmed or obligated?

(The information follows)

Contracts	Type of Audits	Number of Audits	Amount
14	Financial/ Compliance	450	$1,277,522

FOOD STAMP PROGRAM

Question: Recently, the General Accounting Office completed a report (HRD-82-9, January 14, 1982) regarding the verification of income and assets of recipients of food stamps.

Do you agree with the General Accounting Office that underreporting of income and assets by food stamp applicants and recipients is a significant problem? If not, why not?

Answer: We agree with the General Accounting Office assessment. We believe that underreporting of income is the number one problem in the Food Stamp Program and that it has been so identified for several years by both quality control reviews and Office of Inspector General audits. In our view, the problem is so serious that computer matching of income, verification of significant underreporting, initiation of claims, prosecution of fraud cases, and a purging of the rolls of violators are needed to combat fraud and abuse and to bring integrity to the program.

Question: Do you believe that the General Accounting Office's estimated fiscal year 1982 excess benefits of $404 million because of unreported income and assets is reasonable? If not, why not and what is a reasonable amount?

Answer: We think that the General Accounting Office estimate of $404 million is conservative. The General Accounting Office used 1978-1979 data which showed a 3.3 percent error rate due to underreported income and assets. They applied this error rate to fiscal year 1982 estimated expenditures. Our data suggests a higher rate of error. For example, we have just completed a statistical audit of the Alabama Food Stamp Program and found that overissuances due to underreported income were about 9 percent. We continually find that underreporting of income is the predominant error, accounting for as much as 70 to 90 percent of the errors disclosed during audits of certification actions.

Question: Do you agree that a substantial part of the excess benefits could be avoided if the General Accounting Office's recommendations were implemented? If not, why not, and what are the alternatives?

Answer: Yes. Additionally, we believe that a system to detect erroneous information at the time of certification and to prevent ineligible participation or participation at an erroneous level would be far more beneficial than detecting fraud and abuse and trying to recoup overdisbursements. Systems of detection and recovery after the fact usually require more costs to administer than building in necessary checks to prevent the overissuances in the first place.

Question: The General Accounting Office noted in its report and testimony that the Department expressed concern about mandating specific wage and benefit data matching and that data matching should be left to the discretion of the States. Do you feel that without any Federal mandates the States would accomplish adequate income and asset verification?

Answer: Under the Food Stamp Program, matching is optional until January 1, 1983. While States presently do some matching, it appears to us that without the Federal mandate, some States would not accomplish adequate income and asset verification.

Question: The General Accounting Office also noted that the Department questioned the merits of requiring the States to use social security benefit data provided by the Social Security Administration. If this information is not used, how can States identify food stamp recipients who falsely deny receiving social security benefits?

Answer: They cannot identify such a recipient unless they use the social security benefit data that is available. However, the Department questioned the timeliness and accuracy of SSA data as well as its utility for recertification purposes.

Question: In response to one of the General Accounting Office recommendations, the Department said that the Inspector General was doing some matching of food stamp files with the Office of Personnel Management's files and that based on the results of the effort the States may be asked to assume more responsibility in the area.

What were the results of your matching efforts, and have the States been given more responsibility?

Answer: We have not completed our matching of food stamp files with the Office of Personnel Management's files. Preliminary efforts have identified about 2,000 Federal employees in California, Illinois, Washington, DC, and suburbs, and Massachusetts that are participating in the Food Stamp Program. We are now in the process of determining whether the Federal employees correctly reported their income for Food Stamp Program purposes. Cases of suspected underreporting will be referred to the applicable agencies for confirmation of earnings.

Question: What action has Agriculture taken to implement the General Accounting Office's recommendations?

Answer: With regard to the General Accounting Office's recommendation to make Office of Personnel Management wage data available for use in administering the Food Stamp Program, the Department plans to analyze the results of the current Office of Inspector General matches before giving State agencies more responsibility for the use of this data. With regard to the General Accounting Office's recommendation to use available Federal and State wage data, the Department did issue a proposal on June 10, 1981, giving States the option to make such matches. Regulations are now being finalized to make matching mandatory effective January 1, 1983, as required by the 1981 Farm Bill.

Question: You mentioned in your statement that the President's Council on Integrity and Efficiency, made up largely of Inspectors General, is attempting to find ways to improve income/asset verification in Federally funded programs. Do you know what the Council's views are on the General Accounting Office report?

Answer: Not specifically. However, based on previous meetings, we are confident that the President's Council on Integrity and Efficiency supports the report.

Question: Has the Office of Inspector General made any reviews similar to the General Accounting Office review? If not, why not: If so:

---what were the results;

---what action was recommended; and

---what action did the Department take?

Answer: The Office of Inspector General has reported findings of violations detected through our computer matches of wage information and income data provided by Aid to Families with Dependent Children and Food Stamp Program applicants in Tennessee. As a result of that effort, the State has established $1.3 million in claims against 934 households for food stamp losses, and about $406,000 in claims for about 337 households participating in the Aid to Families with Dependent Children Program. Additionally, 89 persons have been indicted in Federal courts and 114 in State courts. We estimate the total loss to the Food Stamp Program will be about $2.5 million and about $500,000 to the Aid to the Families with Dependent Children Program when all cases have been reviewed. In Alabama, a similar matching audit disclosed food stamp overpayments estimated at $1 million to about 1,000 applicants as well as large excessive benefits from Health and Human Services, and Housing and Urban Development programs. In Chicago, our computer match of recipients with the same first names and birthdays resulted in indictments of 24 individuals who, collectively, fraudulently obtained food stamps and other welfare benefits in excess of $1 million.

Through matching we have identified large numbers of food stamp fraud cases involving millions of dollars in overissuances. We estimated that for each dollar of overissuance detected, it cost the Office of Inspector General, USDA, about five cents. This nickel on the dollar ratio does not include savings in future issuances nor the deterrent effect on fraud. During recent months, however, this work has become more significant through joint efforts of other Office of Inspectors General and State agencies to identify fraud in entitlement programs administered by other Departments.

The Office of Inspector General has offered to assist Food and Nutrition Service and the States in their efforts to begin and improve matching programs. We believe that a combined Federal, State and local effort can significantly reduce the current high level of fraud and abuse in the Food Stamp Program.

FOOD AND NUTRITION SERVICE PROGRAMS

Question: Mr. Graziano have you had a chance to evaluate the various recommendations and changes that the Administration has made to Congress for cutbacks and/or savings in the programs of the Food and Nutrition Service?

What would be the impact of these changes on the recipients of benefits of these programs?

Please outline, for the record, the impact on each program.

Answer: The Department has recently proposed the following changes designed to provide for cutbacks and/or savings in the Food Stamp Program:

Reduce food stamp allotments by 35 percent of net income instead of 30 percent.

Eliminate one-and two-person households' $10 minimum benefit.

Permit Federal housing programs to consider food stamp benefits as income and resources.

Include all public energy assistance (vendor payments as well as cash assistance) as income for food stamp purposes.

Eliminate the 18 percent earned income deduction.

Require that Thrifty Food Plan adjustments and households' allotments be rounded down to the next lower dollar and that adjustments to the standard and excess shelter expense/dependent care deductions be rounded down to the next lower $5.

Permit the Secretary to require applicants as well as participants to comply with job search procedures.

Abolish the incentive system for reducing error rates and hold States liable for the value of errors above 3 percent in fiscal year 1983.

We have not performed a review to determine the impact of these proposed changes on recipients because we don't believe it is appropriate for us to comment on most of the proposals since they are policy decisions. However, we support increasing liability to the States for their errors. We believe that this will result in greater incentives for prompt implementation of wage matching and other management improvements.

With regard to the Child Nutrition Program, the Administration has made the following budget proposals for fiscal year 1983:

Block grant the domestic feeding programs to the territories.

Eliminate National School Lunch Program participation by Department of Defense schools.

Establish a General Nutrition Assistance block grant with funding at about 80 percent of the fiscal year 1982 level for the Child Care Food Program and the School Breakfast Program.

Transfer of the Special Supplemental Food Program for Women, Infants and Children, the Commodity Supplemental

Food Program, and the Elderly Feeding Program to the Department of Health and Human Services.

Eliminate the Summer Food Service Program, the Special Milk Program, and the Nutrition Education and Training Program.

Here again, these proposals are policy decisions on which I do not feel it is appropriate for my office to comment.

SCHOOL LUNCH PROGRAM

Question: Recent studies show that some 3 million children have stopped participating in the Federal school lunch program since Administration budget cuts took effect last September. Schools across the Nation have increased their prices and tightened their eligibility requirements for free and reduced-priced lunches, because of cutbacks in Federal food subsidies which began last year.

Have you had an opportunity to look at the school lunch program this year?

Do you concur with the findings of these studies that these schools dropped out because of the reductions in last year's budget?

Do you have any kind of reading as to how many additional schools may have dropped out, but didn't because districts picked up the additional costs?

Answer: We have not made an extensive review of the school lunch program this year because we just completed a nationwide audit in 1980. Recommendations resulting from that audit should be reflected in the regulations effective for the 1982-1983 school year. However, we do believe that some of the initial actions taken by the Food and Nutrition Service in response to the Omnibus Reconciliation Act of 1981 and our 1980 nationwide audit, which identified widespread underreporting of income, does at least partially contribute to the 10 percent reduction in free and reduced-price meals. For example, applicants for free and reduced-price meals were, for the first time, required to furnish the social security number of all adult household members and were informed that the information provided may be verified. We believe these actions deterred some ineligible households from applying for benefits.

FOOD STAMP PROGRAM IN PUERTO RICO

Question: Last year at our hearing, you discussed in some detail the problems in Puerto Rico in regard to the Food Stamp Program.

Have the problems of overissuances, etc., improved in the past year?

In July of 1982, the block grant goes into effect in Puerto Rico. Do you think this approach will improve the program and how effective is it going to be?

Answer: While we have not performed a complete audit of the Puerto Rico Food Stamp Program since the release of our last report in May 1980, quality control data shows that the program has not improved. Puerto Rico had an 11.3 percent error rate during the quality control review period of October 1979 through March 1980, and a 13.93 percent error rate for the period October 1980 through March 1981. We are coordinatng with the Food and Nutrition Service to make a closeout audit of the current program. With regard to the block grant, Puerto Rico's plan for implementing the grant is due April 1, 1982. Since we have not yet seen or reviewed their plan, I cannot comment on its effectiveness.

FEDERAL CROP INSURANCE CORPORATION

Question: You have conducted five audits on Federal Crop Insurance Corporation programs. Please describe, for the record, the audits you have conducted along this line, along with your recommendations and/or suggestions.

Answer: Based on an audit of 1981 marketing activities, we recommended the Federal Crop Insurance Corporation enhance its application processing procedures and improve agent supervision to more effectively handle the increased volume of applications and reduce the number of errors. In the response to this audit Federal Crop Insurance Corporation advised they would correct the situation by using the master contracting thrust for 1982 which utilizes Reinsurance Agreements and Agency Sales and Service Agreements.

The intitial results of our audit of reinsurance activities, which is continuing, were reported to the Chairman, Federal Crop Insurance Corporation. We reported that the servicing association for the reinsurance companies had no batch control procedures to assure all source documents would be processed or that each document would be processed only once. No edits existed which would identify insureds who attempted to insure the same crop with more than one company. There were no controls to assure that any losses would first be credited to any premium balances due from the insured. We also noted that at the time we initiated our review neither the reinsurance companies nor their servicing association had information on current Federal Crop Insurance Corporation policy holders or debtors. We concluded that these weaknesses raise serious questions as to the integrity of the reinsurance program.

As a part of our survey of debt management in the Department, we assessed the debt management activities in Federal Corp Insurance Corporation. Federal Crop Insurance Corporation accepts liability for an insured crop at the time it is planted. However, premiums are not billed or considered due until around harvest. Furthermore, premiums are not considered delinquent until about 4 to 6 months after harvest. Based on our recommendations, Federal Crop Insurance Corporation will present schedules for earlier billing of premiums and measures to encourage earlier payment to its Board of Directors for adoption. The earlier billing and collection of the premiums has the potential of substantial savings in interest costs to the Treasury.

An audit of a Federal Crop Insurance Corporation Regional Office led to the identification of an issue which required the assistance of the Office of General Counsel in a review and interpretation of the regulations for insuring burley tobacco. Subsequently the regulations were clarified and amended. In addition, we reported that the mangement of loss adjustment operations needed to be improved. The Regional Director advised that closer management controls over field supervisors and loss adjusters would be provided. Furthermore, he advised that claims had been filed and recoveries for the most part had either occurred or were in process.

In another audit we questioned the propriety of indemnity payments to producers that had not complied with the requirement to replant. Federal Crop Insurance Corporation officials recognized that they had a continuing problem with regard to replanted winter wheat in the area of South Dakota in which we performed our audit. They advised that the Research and Development Staff had been working on this matter and were trying to develop some contractual changes which would minimize the problem in the future.

BUSINESS AND INDUSTRIAL LOAN PROGRAM

Question: You mentioned that the Farmers Home Administration paid approximately $40 million in losses in the Business and Industrial guaranteed loans. Also, several borrowers were in the process of liquidating business and industrial loans totalling $222.5 million.

Despite all of the problems associated with this program, is it accomplishing its intended purpose of assisting in the development of employment opportunities in rural areas and to make available greater amounts of capital in rural areas?

Answer: Our audit of the Business and Industrial Loan program disclosed that the Farmers Home Administration does not have an adequate system to determine the accuracy and reasonableness of the reported number of jobs created or saved by these types of loans. Consequently, information provided to Congress relative to the number of jobs created or saved through the program has been overstated. The Farmers Home Administration reported to Congress that 180,527 jobs were created or saved from the program's inception through September 30, 1979. The number of jobs reported was based on applicant's optimistic projections for obligated loans. We found that the figure included jobs reported as being created or saved, although the loans were deobligated and never made. We also found that marginal and/or unsound businesses tended to deteriorate financially after loan closure. This prevented the expansion necessary to create additional jobs and in some cases, even to retain employment at pre-loan levels.

To futher complicate the problem, borrowers sometimes submitted inflated figures for the number of jobs to be created or saved. Also, some of the loans created no new jobs but involved only a transfer of jobs from one business to another. And of course, there was a loss of jobs and delays in expansion for many businesses due to the downturn in the economy.

In view of the problems we found with the Farmers Home Administration's program data, it is difficult, in our opinion, to state conclusively whether the program is accomplishing its intended purposes. The Farmers Home Adminstration needs to develop a new system or refine the current one to more accurately measure and report on program accomplishments.

Question: I know audits have been made of this program. Does the fault rest with the Farmers Home Administration on these loans? Does the Farmers Home Administration have sufficient staff and is that staff sufficiently specialized to properly administer this program?

Answer: A significant part of the problem was the Farmers Home Administration policy that emphasized loan making as opposed to a balanced effort of loan making and loan servicing. The current Administration is stressing that maximum staff resources be applied to loan servicing in order to protect the Government's interest as well as helping the borrower be successful. It will be difficult to gauge the effectiveness of the new policy because of the current ecomomic climate and the effects it will have on new businesses, but it is certainly a step in the right direction.

An audit of Business and Industrial Loan liquidations is underway which is intended to provide insight on causes of business failure, as well as recommendations for improved controls of the liquidation process.

FARMERS HOME ADMINISTRATION

Question: Much has been said recently about the fear among farmers that the Farmers Home Administration is cracking down on farmers who are unable to show ability to repay in this difficult economic period. Your audits have also shown that many borrowers did not have long-term repayment plans and/or the ability to make repayment. You say the Farmers Home Administration has instructed its State offices to vigorously pursue civil or criminal action against borrowers. Yet, Secretary Block is quoted as having said the Department would "walk the extra mile" with farmers to get them through "these cloudy times." Is this not a little contradictory?

Answer: I do not see a contradiction between the Secretary's position and the actions being taken by the Farmers Home Adminstration. The Secretary has directed FmHA to "walk the extra mile" for those borrowers who are unable to repay their loans due to circumstances beyond their control. FmHA is doing everything possible to keep these borrowers in business. But at the same time, the agency is taking steps to improve the management of its programs.

Among the steps taken, Farmers Home Adminstration has implemented a number of loan servicing directives over the past year designed to graduate to other sources of credit those borrowers who can afford to do so, and to ensure the timely repayment of loans where possible. Civil and criminal actions will also be proposed more vigorously where individuals have attempted to receive benefits through fraudulent means.

Question: Do you believe we will be seeing an increase in the number of delinquencies and/or foreclosures?

Answer: The Farmers'Home Adminstration's latest figures show a marked increase in loan delinquencies, particularly in the farm loan programs. For example, 74,061 of the 124,558 borrowers with emergency loans were delinquent as of January 1, 1982. The longer term trend in deliquency rates depends both on improved servicing and farm income propects. The extent of foreclosures also will depend both on the economy and effectiveness of loan counseling.

Question: Have you made any recommendations and/or suggestions to the Farmers Home Administration which would be helpful to borrowers in meeting their scheduled payments, etc.?

Answer: In reviewing our past audits of the Farmers Home Administration programs we found that many of them cited the same general problem - the emphasis placed on loan making versus loan servicing. We have made numerous recommendations for improving loan servicing and the Farmers Home Administration has implemented many of them. In addition, the Farmers Home Administration has sent administrative notices to field offices emphasizing the need for improved loan servicing citing specifics in our audit reports.

We have pointed out that borrowers, particularly farmers, need sounder and more objective credit counseling to assure that their borrowing needs and payment ability are realistic. We also have recommended that the Farmers Home Administration make a greater effort to verify income and confirm assets and liabilities when estimating repayment ability for refinancing operating indebtedness.

Question: Does the Farmers Home Administration have the management capability to fully implement the recommendations?

Answer: Even under normal operating conditions, the Farmers Home Administration's capability to manage its growing loan portfolio is severely strained. We have serious concerns that the agency has the resources to service accounts in good standing as well as cope with the added burdens caused by disasters, delinquencies, and foreclosures. We are currently working with FmHA to develop techniques to effectively deal with the volume of business. Farmers Home Administration has already increased its emphasis on loan supervision and servicing, and plans to provide additional training in loan servicing to district and county office staffs.

Question: Last August, the General Accounting Office issued a report on the limited resource farmer loan program. Is the Department/Farmers Home Administration on schedule with respect to its proposed corrective actions?

Answer: The Farmers Home Administration has generally been very responsive to the recommendations made by the General Accounting Office for improvements in the limited resource program. The Office of Inspector General's audits have also disclosed many of the same deficiencies reported by the General Accounting Office in their audit of the program. The Farmers Home Administration has taken action on most of the General Accounting Office's recommendations and has agreed to study the recommended subsidy recapture provision. The Farmers Home Adminstration believes that the potential return to the Government from a recapture of farm loan interest subsidy could be much less than implied in the General Accounting Office report. Further, the Administration has proposed legislation to eliminate, rather than provide for the recapture of, the interest subsidy on loans to limited resource borrowers. This legislative proposal reflects the Administration's view that new and beginning farmers are being adequately served by FmHA's regular farm programs. The interest subsidy on loans to limited resource borrowers only encourages the inefficient use of capital and does not help to establish these borrowers in a way that will enable them to compete on their own in the market place.

COMMODITY CREDIT CORPORATION

Question: In view of the increased visibility over the past few months of the functions of the Commodity Credit Corporation with regard to the loan status of Poland and Romania, have you conducted any investigations or audits along this line? If so, what were the results?

Answer: We have not conducted any in-depth audits or investigations of the repayment problems on the part of Poland and Romania. However, we have collected and reviewed data surrounding the problem.

We did review the legal opinion from the Office of General Counsel describing the recent action by the Commodity Credit Corporation and its authority to take such action and the relevant statutes and regulations governing the program which provide for these credit guarantees.

Our findings indicate that the Commodity Credit Corporation acted within its statutory authority. The Commodity Credit Corporation has broad authority to structure its agreements with exporters as it deems best in order to fulfill the purposes of its charter. The legal basis on which the Commodity Credit Corporation predicated the arrangement, which continues on a payment-by-payment basis for as long as the central Polish bank misses payments, appears to be firm. The payment arrangement itself does not seem to exceed the contractual authority of the Commodity Credit Corporation. The exporters and assignees retain the option not to participate in the arrangement preserving their contractual rights under the standard agreement.

Question: It is my understanding that it is expected that there will be a sizable increase in Commodity Credit Corporation's outlays in fiscal years 1982 and 1983. This need may approach $9 billion. Have you had an opportunity to look into this?

Answer: We are aware of the tremendous surge of loan activity arising from the bumper 1981 crops which account for the bulk of the estimated increase in outlays anticipated by the Agricultural Stabilization and Conservation Service for fiscal year 1982. Grain was entered directly into the reserve program where it is likely to remain for an extended period of time. A result of this activity is that the cost of Commodity Credit Corporation's borrowings from the U.S. Treasury is expected to rise. The changing nature and volume of Agricultural Stabilization and Conservation Service/Commodity Credit Corporation activities has been given a high priority in our audit planning process.

Question: Have you investigated or studied the recent distribution of surplus cheese? What is your assessment of that situation? Of other commodities in storage?

Answer: We acted in an advisory capacity when the procedures and plans were developed. The Office of Inspector General reviewed a draft of the distribution agreement between the Department and the States. Since the Department selected the surplus food distribution program as the method for handling the cheese, and we have considerable experience with that program, our concerns for accountability and control were lessened. We have not detected any significant incidents of fraud or waste in the process.

Some time ago we had recommended that Commodity Credit Corportion develop a comprehensive commodity inventory plan to provide a more orderly and less costly system for managing its commodity inventories. Commodity Credit Corporation officials have not been responsive to our concerns. We believe our position is well illustrated by this recent need to distribute surplus processed cheese. With the inventory of about 547 million pounds of cheese burdened by the acquisition of more cheese under the price support provisions of the 1981 Farm Bill, Commodity Credit Corporation was forced to take disposition actions. Although the current distribution of cheese has been orderly and beneficial, we are concerned about the condition, age and quantity still in inventory, the associated storage cost, and the lack of definitive long-range plans for dealing with inventory management.

QUESTIONS SUBMITTED BY SENATOR EAGLETON

DEBT MANAGEMENT

Question: Your statement indicates that while USDA programs account for about 46 percent of money owed to the Federal Government, its delinquencies represent less than six percent of the total Government's delinquencies. That appears to be a very good track record. To what do you attribute this good record?

Answer: A very large percentage of the Department's receivables are in the form of long term loans. One agency, the

Rural Electrification Administration, has no, or extremely little, delinquency at any given time. This agency, whose receivables approximate 25 percent of the Department's total, loans money to electric and telephone cooperatives whose incomes are steady and therfore not subject to the fluctuations of other borrowers.

Conversely, the Farmers Home Administration deals mainly with farm enterprises and low-income families who borrow for rural housing purposes. In this agency the delinquency picture is not good. FmHA holds about $52 billion in receivables or 60 percent of the Department's total. The total amount delinquent at Janaury 1, 1982, was $4.6 billion which represented about 85 percent of the Department total. The delinquent figure includes only the scheduled amounts that borrowers have not paid. It does not include the remaining unpaid principal of the deliquent borrowers' accounts which at Janury 1, 1982, approximated $21.4 billion. We believe the unpaid balance must be considered in jeopardy when borrowers become delinquent. The January 1982 figures represent a worsening situation from 1981 when FmHA delinquencies stood at $2.6 billion in January and $1.6 billion in September 1981. We have briefed the Secretary and other top officials and provided recommendations to correct the FmHA situation. Some corrective actions are currently under way and the Department is working to improve the situation.

FOOD STAMP PROGRAM

Question: If all of your recommendations were fully implemented, what is your estimate as to the net savings in the Food Stamp Program in FY 1983?

Answer: We believe that the area where the greatest savings can be realized is through wage matching to detect and prevent underreporting of receipients' income. This has been identified by both the Food and Nutrition Service Quality Control System and our audits as causing approximately 50 percent of all errors detected. Based on current issuance levels, we estimate that overissuances due to underreporting of income are at least $45 million per month.

Wage matching has been shown to be extremely useful in reducing underreporting of income. However, the effectiveness depends on individual State initiative in achieving full implementation and reducing errors. In our view past corrective action plans have had little impact on reducing errors and overissuances. Increasing the State's liability for its errors should result in greater incentives for prompt implementation of effective wage matching.

We believe that income or the lack thereof should be verified during the initial certification process by a third party -- either with the employer or by matching with wage data. Further, wage matching results should be available to eligible workers when they recertify households for continued participation in the Food Stamp Program.

ERROR RATE SANCTION

Question: Your statement indicates that FNS has just finished analyzing error rate data for the period October 1980 to March 1981. How would the new error rate sanction program obtain data soon enough to allow sanctions, based on current error rates to be assessed against States?

Answer: The Administrator's proposal to establish an error rate tolerance level of 3 percent would eliminate the current process of establishing error rate improvement goals for each State. Sanctions could be applied as soon as the results of the review periods were compiled. This should cut in half the time necessary to establish a sanction.

Under the current quality control reporting system, error rate percentage goals are established based on a State's error rate during a prior six-month base period. The results of subsequent six-month review periods are compared to the established goals. Based on this comparision, the 14 States, which did not meet the established goals for the quality control period of October 1980 through March 1981, were sent a sanction letter dated Janaury 4, 1982. This was over 15 months after the start of the review period and over 27 months after the start of the base period. By establishing a standard tolerance level the delay between the start of the base period and the end of the review period could be shortened by 12 months because the base period would no longer be needed. This would allow sanctions to be imposed on a more timely basis.

GENERAL ACCOUNTING OFFICE

COMMUNITY AND ECONOMIC DEVELOPMENT DIVISION

STATEMENT OF HENRY ESCHWEGE

Senator EAGLETON. We will now turn to the Comptroller General. We have Mr. Henry Eschwege, Director of the Community and Economic Development Division, GAO. You may proceed.

INTRODUCTION OF COLLEAGUES

Mr. ESCHWEGE. Thank you, Mr. Chairman.

I would like to introduce my colleagues this morning. On my immediate right is Brian Crowley, our Senior Associate Director, and on his right is Stan Sargol, Group Director, both of whom have responsibilities for audits at the Department of Agriculture.

We are discussing here today the results of our major reviews during the past year relating to Department of Agriculture activities. I have a relatively short statement which highlights our work. In the attached appendix, we have summarized over 50 major assignments we have completed or started since last year's hearings. Where applicable, we show the action taken on our recommendations. I will also discuss the President's budget proposals for fiscal year 1983 as they relate to work we have done at the Department.

FOOD STAMPS

States use the authorization-to-participate system to issue most food stamp benefits. We reported that, according to Department records, duplicate issuances arising from false claims and other losses incurred in getting coupons to recipients amounted to about $12 million annually. Actual losses, however, were higher, because some locations had not filed required reports or had understated their losses. Agriculture is taking some corrective action, but it needs to increase its efforts with food stamp agencies to upgrade the fiscal integrity of issuance procedures and hold States liable for losses.

We also reported on a test of the workfare concept whereby food stamp recipients work in exchange for their benefits. Data on the first year of the test indicated that workfare was administratively feasible. Program changes we recommended to increase participation, shorten job-search periods, and increase penalties for noncompliance recently become law.

Two assignments underway focus on the integrity of the $10.6 billion food stamp program.

Senator **Eagleton**. That is an old figure.

Mr. **Eschwege**. That figure does not include administrative expenses.

Senator **Eagleton**. Does that include Puerto Rico?

Mr. **Eschwege**. For 1981, it does.

Senator **Eagleton**. That is coupon costs. I say it is an old figure, because it is $11.3 billion for 1982, and the President is recommending $9.7 billion for 1983. You are talking, needless to say, about the past. That is what you look at.

Mr. **Eschwege**. We are talking about 1981. We are talking about only the benefits and not the administrative expenses.

On the two assignments, one is an assessment of the causes and kinds of errors made in food stamp eligibility and benefit determinations. In the other, we are assessing the extent of Federal, State, and local efforts to identify households improperly awarded or denied benefits and to establish and collect claims. Our work shows that more can be done to prevent errors and that little effort has been made to recover erroneous benefits which, based on the Department's data, are estimated to have reached $1.1 billion in 1981.

Senator **Eagleton**. And that tracks with the earlier testimony of the Inspector General.

Mr. **Eschwege**. Yes.

The President's fiscal year 1983 budget proposals on income security programs include phasing in full State responsibility for erroneous payments under the aid to families with dependent children, food stamp, and medicaid programs.

ADMINISTRATION OF PROGRAMS

Senator **Eagleton**. I am going to stop you there. Part of your duty is seeing how well programs are being administered, more efficient ways of administering programs, more cost-effective ways, more fraud-free ways. When you sat here this morning, as you did, and heard the error rate of the 30 or so States I read into the record, starting with Alaska and going down through Illinois, as a spokesman for the GAO, are you persuaded that the 50 States are all that efficient in the administration of their programs, and in specific, insofar as State operation of the food stamp program?

Mr. **Eschwege**. No; I am not.

EFFICIENCY RECORD OF STATES

Senator **Eagleton**. I am not either. There is the notion that floats around that in Jefferson City, Mo.; Jackson, Miss.; Springfield, Ill.; Juneau, Alaska, and all other State capitals, that everything is just very efficient in all those State capitals. Whatever they do, they do in a truly efficient, cost-effective way. I submit that the record not only in the matter that is before us—food stamps, with the error rates that have been read into the record—but in a whole host of other areas, including the collection by the States of their own taxes due, whether it be a State income tax or State sales tax or State gasoline tax, the track record is that the States are not that efficient. The notion is that the States are efficient, and that turning everything over to the States will make programs much more efficient. But the hard track record, the statistical track record belies that fictional notion.

That notion is certainly belied by the food stamp program experience. Nobody can look at this error rate figure and conclude anything but the fact that the States are egregiously inefficient in their responsibilities under the current food stamp program. That record is such that one has to wonder why it is going to be all that much better to turn food stamps over to the States lock, stock, and barrel. I don't know where all that efficiency is going to spew forth. Indeed, it won't spew forth.

Go ahead, sir.

Mr. ESCHWEGE. So far, establishing higher administrative cost reimbursement rates as an incentive for the States to reduce error rates and pursue fraud has had little effect.

Senator EAGLETON. Has had little effect?

Mr. ESCHWEGE. Yes.

Increasing the States' financial liability for errors would provide a major incentive for better administration and could result in savings—especially for the food stamp program in which benefits are totally financed by the Federal Government. The error rates are, although not totally comparable, lower for medicaid and for AFDC.

Senator EAGLETON. They are pretty high in medicaid.

Mr. ESCHWEGE. They are relatively lower.

Senator EAGLETON. But they are a shade, maybe more than a shade, lower than food stamps. Part of that reason is that in medicaid about one-half of the funding comes out of the State treasury; isn't that right?

Mr. ESCHWEGE. That is exactly what we are saying. Food stamps, on the other hand, are totally funded by the Federal Government.

Senator EAGLETON. Do you have the error rate figures on medicaid?

Mr. CROWLEY. It is 5 percent.

Mr. ESCHWEGE. As I say, they are not totally comparable.

We can give you something on that. It is 5 percent for medicaid, 7.3 percent for AFDC, and 10.6 percent for food stamps.

Senator EAGLETON. These are national averages?

Mr. ESCHWEGE. These are national averages.

Senator EAGLETON. Five percent for medicaid.

Mr. ESCHWEGE. 7.3 percent for AFDC.

Senator EAGLETON. That is both State and federally funded.

Mr. Eschwege. Yes; there are State contributions to that.

The error rate is 10.6 for food stamps.

Mr. CROWLEY. Excuse me, Mr. Chairman, let me add one thing. The 10.6 percent refers to overpayments. The total error rate for food stamps is about 13.3 percent and includes underpayments.

Senator Eagleton. That is good to clarify. Overissuance is 10.6 percent. There are also cases of underissuance.

Mr. ESCHWEGE. They run, in the case of food stamps, about 2.5 percent.

Senator Eagleton. I am glad you clarified that, because I didn't have that in mind when I was looking at these other figures.

A 5-percent error rate for medicaid. By the way, does that include over and underpayments?

Mr. CROWLEY. That is just overpayments.

Mr. ESCHWEGE. All the percent figures are just overpayment rates.

Senator EAGLETON. That is the national average. Ergo, many States are above 5 percent; many States are below 5 percent. Do you have a dirty dozen list on medicaid with you?

Mr. CROWLEY. No, sir, I don't. We will try to get that for you.

Mr. ESCHWEGE. We will provide it to you.

[The information follows:]

MEDICAID OVERPAYMENT ERROR RATES

The following table lists the 12 States with the highest overpayment error rates for the medicaid program for the period October 1980 to March 1981.

State	*Overpayment error rate*[1]
Montana	18.3
Delaware	15.4
West Virginia	12.7
Idaho	11.8
Alaska	11.7
Maine	8.7
California	8.1
Hawaii	7.2
Georgia	6.9
South Dakota	6.8
Connecticut	6.6
Massachusetts	6.6

[1] State error rates do not include cases for which medicaid eligibility was automatic because applicants were already receiving supplemental security income (SSI). These cases are not included because overpayments would have been caused by incorrect SSI eligibility determinations.

These statistics are taken from a Department of Health and Human Services interim report not available at the time of our testimony. This report shows a 4.1-percent national overpayment error rate which is lower than the 5-percent error rate for the April to September 1980 period.

However, our report entitled "Medicaid's Quality Control System Is Not Realizing Its Full Potential" (HRD-82-6, October 23, 1981) disclosed inaccuracies and weaknesses in error determination and reporting procedures, and we therefore believe that medicaid quality control error rates should be used with caution.

CHILD NUTRITION

Mr. ESCHWEGE. Also, if this is adopted, the proposal to consolidate administrative funding for the same three programs would provide further opportunities for savings through streamlining operations and eliminating separate accounting and reporting requirements.

We also reported on efforts to improve the $3.5 billion school lunch program. We found that all types of lunches fell short of providing recommended levels of basic nutrients—some to a serious extent. We recommended that Agriculture decide whether achieving a specific nutrient goal is necessary or practical, or whether the program should simply provide a variety of foods within a specified meal pattern or some other achievable criteria.

Senator EAGLETON. You are testifying here today in your customary role as investigators and auditors. You are not testifying as nutritionists; are you?

Mr. ESCHWEGE. No, sir. But when we do this work, Mr. Chairman, we often call on nutritionists to help us.

Senator EAGLETON. Let's take a 5-minute recess at this time.

[A brief recess was taken.]

Senator EAGLETON. The committee will reconvene.

Sir, you were on child nutrition, page 3.

COMMODITY PURCHASES AND DONATIONS

Mr. ESCHWEGE. Yes; the second paragraph under that.

On commodity purchases and donations, we reported that recipients such as schools often received the wrong quantities and kinds of food and that food was sometimes delivered at times when it could not be used effectively. We recommended a series of steps to improve overall management of this $1 billion program.

We will be reporting soon that financial resources for nutrition education in schools need to be used more effectively and that many experts believe that educating schoolchildren is the most effective way to develop a nutritionally informed population. The President's budget proposes to leave nutrition education activities to State and local discretion.

Senator EAGLETON. That is, Federal funding for these matters under the President's proposal will be turned over to the State, right?

Mr. ESCHWEGE. Yes, sir.

Senator EAGLETON. With no money.

Mr. ESCHWEGE. With probably no money.

SUMMER FEEDING PROGRAM

The President proposes also to eliminate the summer feeding and special milk programs and merge the school breakfast and child care feeding programs into a grant to the States. We have reported in past years that the summer program has had major recurring problems, that management of the child care program needed improvement, and that communities should have a voice in whether to have a breakfast program in their school districts.

Senator EAGLETON. There have been considerable managerial, accounting, waste, and abuse problems with the summer feeding program, no doubt about that.

Mr. ESCHWEGE. Yes, sir.

Senator EAGLETON. And it has been an agony, I guess, from the very inception of the program. When did that start?

Mr. ESCHWEGE. I don't know exactly. But, Mr. Chairman, I remember we got involved as early as 1975–76. I know the Inspector General has been involved also.

Senator EAGLETON. It has been a problem from the day-to-day management point of view. No doubt about that.

Does your office in the GAO consult with outside nutritionists?

Mr. ESCHWEGE. Yes, we do.

Senator EAGLETON. Has your office ever consulted with Dr. Jean Mayer, the president of Tufts University?

Mr. ESCHWEGE. Yes, we have.

Senator EAGLETON. Have you ever consulted with him specifically on the summer feeding program?

Mr. ESCHWEGE. No, not specifically.

Senator EAGLETON. I talked to him about it. Dr. Mayer, just from my own judgment, is the foremost nutritionist in the country. I don't mean to disparage other people who qualify, but I rate him—he is to nutrition what Henry Kauffman is to interest rates. Mayer, admitting administrative problems with summer feeding, nonetheless states he thinks it is an important program nutritionally and sociologically. He maintains that the nutritional benefits of it are self-evident; the sociological benefits of it are that it makes the summer program, as a whole, more attractive from a participatory point of view than were the feeding portion not to be available. And he worries with this upcoming summer and subsequent summers yet to come as to the sociological ramifications of the wholesale cut in the programs affecting the poor. Dr. Mayer is not an alarmist by nature. He is a sort of laid-back kind of person. He does have extraordinary concerns about what we seem to be embarking on with respect to nutrition in this country.

Again, that is over and beyond the expertise of your immediate appearance here today.

WIC PROGRAM

I see you are about to get into WIC, and when you do, I will read you another part of the President's press conference last night. Go ahead and read your next paragraph on WIC.

Mr. ESCHWEGE. The President also proposes to transfer the $900 million special supplemental food program for women, infants, and children—known as WIC—to the Department of Health and Human Services where it would be included in a block grant. In a February 1979 report we pointed out that the Congress intended WIC to operate as an adjunct to good health care and that there was a need for strong coordination of the WIC program with the activities of the Department of Health and Human Services.

Senator EAGLETON. Here are the accurate figures. For fiscal 1982, the year we are in, the program level for WIC was $955.5 million, just a shade under $1 billion. For the maternal and child health block grant, $347.5 million was appropriated for fiscal 1982. That totals $1,303,000,000. The President's 1983 budget proposal folds those two programs together as a block grant and funds it at $1 billion.

I will ask the Department of Agriculture folks if that is a fair reflection of the figures.

Mr. SHERMAN. That is correct, Mr. Chairman.

Senator EAGLETON. The President last night in his press conference, talked about how much he cared for the poor, and he threw around a lot of figures showing that he cared. He concluded a long answer on that subject with this: "Well, what they didn't see was that we actually have more money in for that program than we had for others. In the same editorial"—he was complaining, I think, about a New York Times editorial—"in the same editorial they criticized the women, infants and children program—WIC—and I am sure at first glance they must have thought something had happened." Well, it's been merged into another and is in there at much greater money than it has ever had before."

Let me repeat that. "I am sure at first glance they must have thought something had happened. It's been merged with another program and is in there at much greater money than it ever had before."

That is just a bold, bald, total misstatement, inaccurate in the extreme. When you merge $955 and $345 million, which adds up to $1,303,000,000, you are totally and inexcusably misstating identifiable facts by saying that the $1 billion the President has requested for these programs is greater than what it has been.

Now that is not your fault. You weren't whispering into the President's ear last night; were you.

Mr. ESCHWEGE. I am part of the legislative branch, Mr. Chairman.

Senator EAGLETON. But for the life of me I don't know where the President is getting his figures. He had a long coaching session yesterday. The network news says it is the longest coaching session he has had to prepare for a national press conference, and he did rattle off a lot of figures in his answers, including those I read into the record. But even with a long coaching sesssion, the President continues to misstate the facts, and then he wonders why the New York Times writes an editorial critical of his policies on nutrition; then he wonders why people come to the conclusion that he is inattentive to and unconcerned for the plight of the poor. And for the life of me I don't know why he does it, and I don't know how he thinks he can get away with it. He must know the New York Times prints the transcript verbatim after every Presidential news conference. He must know there are people from these departments—budget officers, what have you—who have the figures. He must know sooner or later Congress will find out what the figures are. But he insists on doing that. It is part of his pattern and practice of misstating identifiable facts.

I don't know how many millions of people watched the press conference last night. I suspect a vast audience. It preempted all three networks, and it should. Sometimes we will have a Democrat in the White House, and we will preempt.

So millions of people, if they heard that answer last night, will say, "Gee, the President is putting more money in WIC." How many millions of people will find out today the President just misstated the situation in the extreme. Some people will. There will be another editorial in some major newspaper now. If I were Meg Greenfield of the Washington Post, I would be cranking out an editorial right now on WIC. I would have the true figures in it and say:

> Mr. President, we stand by our earlier editorial, and now we are standing by this new one. You are decimating the nutrition programs of this country. You are not telling the country the truth about the moneys that are going into nutritional programs.

Well, that is over and beyond your presentation here today. All right, sir, you were on conservation.

PRODUCTION AND MARKETING

Mr. ESCHWEGE. Our major reports this past year on agricultural production and marketing programs dealt with the effectiveness of the farmer-owned grain reserve and with additional opportunities for recovering costs incurred in agricultural inspection and grading programs through user charges.

During its first 2 to 3 years, the farmer-owned grain reserve program only partially met its objectives of increasing grain inventories in times of abundant supply, removing the Government from the role of grain storer, and reducing price variability. To improve the reserve's effectiveness, we recommended program adjustments and suggested other possible modifications for further study, such as removing quantity limits, emphasizing long-term stabilization, and allowing nonproducers—such as grain merchants, millers, exporters, and other middlemen—to participate.

On user charges, marked differences existed in the degree to which recipients bore the costs of Agriculture's marketing and regulatory services. In line with our recommendations, the Omnibus Budget Reconciliation Act of 1981 authorized greater user charge financing on such major special benefit services as cotton classing, tobacco grading, grain inspection and weighing, naval stores grading, and warehouse examinations.

Agriculture estimated annual appropriations savings from these changes of almost $48 million for fiscal year 1982, 1983, as well as 1984. Some of the authorizations expire after 1984, however, and unless the Congress extends them, annual savings will be less in future years.

Based on a review of the Commodity Futures Trading Commission, we recently testified that Federal regulatory programs protecting futures markets and market participants should be reauthorized. The Commission's principal programs should also be improved to keep rapidly expanding futures trading reasonably free from abuse and to protect the important risk-shifting and price-discovery functions of futures markets. Even if the futures industry assumes an increasing responsibility for regulation—which we support—the Commission will need to continue some of its own important regulatory and monitoring activities. Improvements which we have proposed can be achieved largely through a shift of resources rather than through a significant budget increase.

In a current review of the Federal Crop Insurance Corporation—which has a budget of $117.6 million in fiscal year 1982—we are examining such issues as actuarial soundness of premiums, the reasonableness of the Corporation's rates and service compared with those of the private insurance industry, and what actions might be needed to make the program eventually self-sustaining and independent of government funding.

CONSERVATION

In our assessment of the resource conservation and development program, we concluded that program objectives were virtually open-ended, program benefits were difficult to pin down, and accurate cost information was not available. We made specific legislative and administrative recommendations to improve the program, including the elimination of Federal funding for project measures. In approving the 1982 budget for the Department, the Congress chose to continue this $26 million program. The President's 1983 budget proposal provides for the phase-out and termination of the program by the end of fiscal year 1983, and the Congress will again have to address the fundamental question of whether it should be continued.

In our ongoing review of the Department's major soil conservation programs, we are examining the issues of targeting funds to the Nation's major erosion problems, concentrating assistance on those practices which yield the greatest conservation benefit for the cost, and identifying alternative strategies for solving conservation problems.

The President's 1983 budget proposal provides for restructuring Agriculture's soil and water conservation programs. We agree with the proposal that Agriculture's conservation assistance be focused on high priority problems and that technical assistance be an important part of this effort. Agriculture, however, needs better data to restructure its programs.

CREDIT

Our reviews of Federal agricultural credit are focusing primarily on the Farmers Home Administration. We are examining whether the agency's cost of obtaining Federal financing accurately reflects the Government's cost of money and whether the agency sets loan terms for borrowers based on the true cost of money.

Another review concerns whether the agency is using all resources at its disposal to help financially distressed farmers overcome loan repayment problems. We plan to determine the adequacy of resources available to help these farmers and the reasonableness and uniformity of the agency's criteria and practices.

As a part of a broader review pursuant to the Farm Credit Act Amendments of 1980, we are also examining the farm credit system's implementation of special loan programs for young, beginning and small farmers and ranchers.

EXPORT AND TRADE

We also reported on the 1980-81 Russian grain embargo. Because of the short time between the decision to suspend shipments and the announcement of the suspension, the Department was not able to thoroughly analyze the suspension's potential impact on farmers and others and to develop a comprehensive plan of offsetting actions. As a result, Agriculture (*1*) erroneously anticipated that the farmer-owned reserve would efficiently remove the undeliverable grain from the marketplace, (*2*) purchased the exporters' Soviet contracts valued at about $2.4 billion with little documentation that such purchases were necessary, and (*3*) inefficiently implemented the offsetting actions. In line with our recommendations, the Agriculture and Food Act of 1981 requires the Department to develop a contingency plan to alleviate the effects of any future suspension.

RESEARCH AND EXTENSION

In the agricultural research area, we reported that although the Department is responsible for preserving the Nation's base stock of domestic and world food plants, a number of serious problems existed in collecting, maintaining and storing germplasm, the genetic material contained in that stock. A number of plant varieties must be available to minimize the risk of major losses resulting from plant diseases and other causes. The Department has begun to give this area increased attention.

In a report on extension activities, we said that the Cooperative Extension Service—which has a budget of $316 million in fiscal year 1982—had expanded into new and more socially oriented programs from its original focus on agriculture and home economics programs in primarily rural areas. The Department's role in providing overall program leadership and guidance and in evaluating extension activities is not clear. We recommended that appropriate congressional committees examine the Service's mission, including the appropriate Federal role. A subcommittee of the House Committee on Agriculture started oversight hearings in February 1982.

Finally, we have a review underway to identify underused Department-owned or leased research facilities and explore ways such facilities can be better utilized.

That concludes my prepared statement. We will be glad to answer any additional questions you may have, Mr. Chairman.

Senator EAGLETON. Mr. Eschwege, we have the supplement to your testimony, and we also have additional questions that we will submit to you in writing for answers to be put in the record.

Mr. ESCHWEGE. That will be fine.

Senator EAGLETON. Thank you, gentlemen.

[The supplement to the GAO testimony follows:]

SUMMARIES OF SELECTED ISSUED REPORTS AND ONGOING WORK

(A Supplement to the General Accounting Office's April 1, 1982, Testimony Before the Senate Appropriations Subcommittee on Agriculture, Rural Development, and Related Agencies)

Food Stamp Program: Improved Collections Can Reduce Federal and District Government Food Stamp Program Costs

(GGD-81-31, Apr. 3, 1981)

Background: The food stamp program is designed to help low-income households obtain nutritionally adequate diets by supplementing their food budgets. The Department of Agriculture's Food and Nutrition Service (FNS) and its regional offices administer the program at the Federal level; the State agency responsible for federally aided public assistance programs has overall responsibility at the State level. Locally, the program generally is administered by local offices of the State agency, or by offices of county or city welfare agencies. The State, however, remains ultimately responsible and is the unit with which FNS deals.

The District of Columbia functions as both a State and a locality in administering the food stamp program. The District's Department of Human Services (DHS) administers the program for the city. Until January 1, 1979, recipients purchased the food stamps from vendors. Participating households now receive food stamps each month, by presenting a District-provided authorization card to an authorized issuing outlet in exchange for stamps. Approximately 42,000 households received stamps totaling about $40 million in fiscal year 1980. In addition, the District receives about $2 million annually in administrative cost reimbursements.

Findings/Conclusions: The District collected minimal amounts due from vendors and recipients. Only $650,000 of $2.7 million owed by vendors was collected (and the District estimates only $235,000 of the balance is collectible), and for a 5-month period ended June 1980, the District collected only $13,500 of the $643,000 due from recipients. Inadequate collection efforts, lack of systems for identifying improper issuances and for monitoring collection efforts, and poor controls over participation cards contributed to the problem. In addition, the District did not have contracts with all vendors and, accordingly, was not indemnified against food stamp losses, and was not always able to obtain reimbursement under the vendors' insurance. Other internal problems also increased program costs.

Recommendations: The Mayor should instruct the Director DHS to execute contracts with all vendors, obtain assurances that vendors are bonded and insured as required, and in such cases where signed contracts and assurances cannot be obtained, terminate the vendor's participation in the program. The Director should establish a procedure to submit claims for unpaid shortages to vendor insurance companies. Also, the Mayor should require the DHS Director to reemphasize to issuers and to program personnel the importance of assuring that participation cards presented for redemption have not expired or been altered, and have been signed by eligible recipients; establish a system to sample redeemed cards to evaluate the extent of compliance with requirements concerning expired, altered and unsigned cards; and remind issuers that they are liable and will not be paid for improper issuances. The Mayor should further instruct the DHS Director to: (1) expand collection efforts for large outstanding amounts to include personal contacts with recipients, (2) establish maximum time frames within which certain claim processing steps must be accomplished, and (3) modify claims and progress of claims through the collection process. Finally, the Mayor should require the DHS Director to improve controls over participation cards.

Agency actions: The District agreed to make every effort to obtain signed contracts from vendors and evaluate the vendor's continued participation if contracts are not executed. The District also proposed actions to improve identification of improper issuances, improve collection efforts, improve controls over participation cards, and correct certain internal problems which were increasing program costs.

Insights Gained in Workfare Demonstration Projects

(CED-81-117, July 31,1981)

Background: The Food Stamp Act of 1977 required that the workfare concept, in which food stamp recipients would be required to work on public service jobs for the value of their food stamp benefits, be tested in 14 pilot projects. GAO reviewed the first year's operation of the Food Stamp Workfare Demonstration focusing on the operating results of seven demonstration sites, problems in measuring workfare benefits and costs, and the need for legislative and administrative changes that would help provide a more effective and efficient workfare operation.

Findings/Conclusions: GAO found that the maximum benefits available to the program were not realized because of shortcomings in Federal and local project design and administration. GAO suggested changes to increase household participation in workfare and help achieve workfare's basic objectives of: (1) deterring program participation by those who could work, but choose not to; (2) securing some repayment to taxpayers by those who are needy and receive assistance; and(3) introducing individuals to the work environment.

Twenty-five percent of the program participants were in four categories which GAO did not believe merited automatic exemption from workfare. These categories were the participants in the Aid to Families with Dependent Children-Work Incentive Program, recipients of unemployment insurance benefits, students, and members of households whose earned incomes were equal to or greater than their monthly food stamp benefits. GAO believed that the mandatory 30-day job search period should be eliminated. As most households' workfare obligations were less than 5 days a month, it seemed unlikely that workfare obligations would interfere with job-search or training activities of these recipients. GAO found that a 30-day job search period given to new referrals to the program allowed some participants to receive food stamp benefits for 2 months before being assigned to a workfare job. GAO also found that workfare sanctions are not effective deterrents to workfare noncompliance and need to be strengthened. The Department of Agriculture (USDA) and Department of Labor did not adequately report to the Congress on improvements needed in program design and administrative procedures. Finally, data available at the time of our review did not allow a concrete determination of whether workfare was cost beneficial.

Recommendations: GAO's recommendations for legislative changes regarding workfare exemptions, job search, and sanctions were made during its testimony in March and April 1981. Regarding workfare administration, GAO's report recommended that the Secretary of Agriculture modify workfare program regulations and administrative procedures to require that eligible participants be interviewed and assigned to public service jobs as soon as possible; require participating jurisdictions to randomly verify participants' reasons for not appearing for an interview or job assignment; require that participants not having a good reason for not completing their workfare obligation be immediately sanctioned; establish work standards for workfare assignments and impose sanctions for clearly substandard performance; and require that project design not restrict work benefits and provide for continuity of project operations. GAO also recommended that the Secretaries of Agriculture and Labor should keep the Congress fully informed about the problems and results of the workfare demonstration.

Agency/Congressional actions: Although USDA agreed that changes were needed in workfare program operations, no substantial revisions were made for the extended demonstration phase which ended on December 31, 1981. The Agriculture and Food Act of 1981 included most of GAO's recommendations regarding workfare exemptions, job search, and sanctions which GAO made during its testimony in March and April 1981.

Legislative and Administrative Changes To Improve Verification of Welfare Recipients' Income and Assets Could Save Hundreds of Millions

(HRD-82-9, Jan. 14, 1982)

Background: The Food Stamp program is designed to increase the food purchasing power of low-income households to a point where they can buy a nutritionally adequate low-cost diet.

At the Federal level, the program is administered by USDA's Food and Nutrition Service. At the State and local levels it is administered by welfare departments which are responsible for determining eligibility and issuing benefits. Federal funds pay 100 percent of the benefit costs and over 50 percent of the State and local administrative costs. Program eligibility and benefit amounts are primarily determined based on the amount of an individual's or family's income and assets. Erroneous payments occur when applicants or recipients do not report or underreport their income and assets and the impropriety is not detected.

Because of concern over such improper expenditures in needs-based programs, including the Food Stamp program, the Chairman, Subcommittee on Intergovernmental Relations and Human Resources, House Committee on Government Operations asked GAO to review the manner in which income and asset information is used and verified by agencies administering the programs.

Findings/Conclusions: Underreporting of income and assets by Food Stamp recipients, whether deliberate or otherwise, is a significant problem. Current Federal and State requirements and practices to verify income and asset information are not adequate to detect the underreporting and prevent overpayments.

Based on the USDA's latest Food Stamp quality control data, GAO estimated that in calendar year 1978 erroneous income and asset information resulted in $211 million excess Food Stamp benefits. These excess benefits are attributable in part to deficiencies in both the availability and the use of data to verify recipients' income and assets.

Some Federal and State data are readily available for use by States in establishing or assuring continuing eligibility and correct benefit levels for the Food Stamp program. Other information that would be valuable for verification purposes is not readily available, and some useful information cannot be obtained by the administering agencies.

Some States have made extensive use of the data that are available to them, but others only use such data when mandated by Federal legislation.

Recommendations: The Congress should eliminate the present privacy and other restrictions on the use of certain data for verifying income and assets. The Secretary of Agriculture should require the use of available data to verify Food Stamp applicants' and recipients' income and assets. Specifically, the Secretary should:

--Acquire and make Office of Personnel Management (OPM) wage data available to State agencies that administer the Food Stamp program, and

--Require that the administering agencies use available Federal and State wage data, and social security benefit and retirement income data provided by the Social Security Administration (SSA).

GAO recognizes that costs would be incurred to make data available for verification but believes the benefits would significantly outweigh these costs. GAO believes that implementing its recommendations would result in avoiding a substantial part of the Federal expenditures related to overpayments in the Food Stamp program caused by recipients not properly reporting their income and assets. If all such overpayments had been avoided in 1978 the Federal savings, excluding implementation costs, would have been about $211 million. The comparable savings would be about $404 million in fiscal year 1982 and probably more in fiscal year 1983 and beyond.

Agency comments: In response to GAO's recommendations that USDA ensure that OPM wage data are available for use in the Food Stamp program, USDA stated that its Office of Inspector General was matching recipient files with OPM's files of Federal employment for selected areas of the country. USDA said that, based on the results of this effort, it will consider having the States assume more responsibility in the area.

Regarding GAO's recommendation that the Secretary require that Federal and State wage data and social security benefit and retirement income data be used in administering the Food Stamp program, USDA, (1) generally supported the use of wage data but expressed reservations about mandating such use and (2) questioned the merits of requiring the use of social security benefit data provided by SSA.

Mandating data matching

USDA said it plans to require data matching under broad guidelines, but expressed concern about mandating specific wage and benefit data matching because it believes "such a mandate would place undue hardships on States where the Food Stamp program is not yet automated." USDA also believes that the specifics of data matching should continue to be an area of the States' discretion.

The thrust of the GAO report is that existing data should be made available to Federal, State, and local agencies and should be used in administering welfare programs. In GAO's opinion, whether the information is used in an automated or unautomated manner does not detract from the advantages gained by having the data available for verification. Also, because of the significant overpayments in welfare programs, GAO believes the use of certain data should be mandated, rather than left to the States' discretion.

Use of SSA data

USDA said that States have indicated that sometimes the data obtained from SSA are inaccurate and untimely and that some States believe that using other means, such as applicants' benefit checks or award letters, is more accurate and efficient.

These alternatives for verifying social security benefit data would not identify unreported benefits. Without verifying through SSA's systems a State is not likely to identify a recipient who falsely denies receiving a benefit. In addition, although some States may have experienced problems with SSA's systems others have used the systems successfully.

Millions Could Be Saved by Improving Integrity of the Food Stamp Program's Authorization-to-Participate System

(CED-82-34, Jan. 29, 1982)

Background: Serious accountability weaknesses exist in the Food Stamp Program's Authorization-to-Participate (ATP) system--the program's principal benefit delivery method. This system will deliver about $8 billion of the estimated $10.6 billion of food stamp benefits in fiscal year 1982.

Under this system, an ATP card is prepared monthly based on a food stamp master file of eligible households. The card is usually mailed to the client. To obtain the actual food coupons, the client must present the ATP card and a food stamp agency identification card to an authorized coupon issuer. The client must sign the ATP card in the coupon issuer's presence. The coupon issuer is required to compare the signatures on the ATP card and the identification card, and if the signatures match, the client receives the coupon value specified on the ATP card.

Food stamp agencies have been required to reconcile transacted ATP cards with their client master file since 1978. In February 1981, the Food and Nutrition Service required that all food stamp agencies operating an ATP issuance system report the results of their monthly reconciliations of transacted ATP cards to provide the Service information on unauthorized transactions. Federal regulations provide that duplicate ATP transaction losses, to the extent they could have been prevented, are a State and local food stamp agency liability.

Findings/Conclusions: Losses through the system caused by client or third-party fraud or agency or coupon issuer negligence have been reported to be about $12 million annually, but GAO's analysis of the reports submitted by some local food stamp agencies indicated that some reports were inaccurate and incomplete and actual losses were more than had been reported. Also, some agencies were not reporting. As a result, FNS does not know the full extent of the losses. Moreover, the Service has opted to accept financial responsibility for the losses even though they could have been better controlled or prevented by State and local food stamp agencies. In addition, recently issued Federal regulations to tighten up the system by (1) requiring photo identification, and (2) restricting the procedures for replacing the authorization cards clients use to obtain food coupons will not fully correct its weaknesses.

Recommendations: The Secretary of Agriculture should direct the Acting Administrator, FNS, to take measures to improve the ATP system's fiscal integrity, including:

1. Determining those elements of existing ATP delivery systems which are most effective in preventing program losses and direct that the more effective methodologies be used where appropriate.
2. Verifying data on the reconciliation reports by reviewing food stamp agencies' ATP issuance and reconciliation systems and records, identifying through these reviews food stamp agencies that may be more likely to have recurring duplicate ATP transactions, and analyzing these weaker systems and requiring the food stamp agencies to correct flaws contributing to program losses.
3. Requiring photo identification at all food stamp agencies experiencing significant duplicate ATP transactions but not currently covered by the regulations.
4. Enforcing program regulations, making States and local food stamp agencies liable for program losses that could have been prevented.
5. Reevaluating the new ATP replacement regulations to determine if noted weaknesses in the regulations can be eliminated.

Agency actions: Although Service officials acknowledged that problems exist, only limited corrective action has been taken--mainly expressions of concern to Service regional offices and mandating use of photo identification at several additional locations. Representatives of USDA's Office of Inspector General also recognized the significance of the weaknesses and initiated a major review of the ATP system.

Food Stamp Workfare--Cost Benefit Results Not Conclusive: Administrative Problems Continue

(CED-82-44, Feb. 19, 1982)

Background: USDA and the Department of Labor have tested feasibility of food stamp recipients working in exchange for their benefits. Fourteen jurisdictions participated in the extended demonstration period which ended in December 1981. Recipients worked in public service jobs with either State or local government agencies or with private nonprofit organizations at the minimum wage for enough hours each month to earn the difference between their household food stamp benefits and any earned household income for that month. Workfare job requirements, when combined with other employment, were not to exceed 40 hours per week.

This report, GAO's third on food stamp workfare, was proceeded by a report (CED-80-129, Sept. 30, 1980) describing USDA's difficulties in recruiting demonstration sites for the first year of the demonstration. GAO's second report (CED-81-117, July 31, 1981) summarized GAO's review of the first year of the demonstration and recommended actions that the Congress and USDA should take to improve workfare operations. This report contains information on the cost-benefit of the first year's demonstration and the methodology used for that analysis as well as GAO's observations on the operations of four of the larger projects operating during the extended demonstration period.

Findings/Conclusions: GAO reported that the cost-benefit results of the first year's demonstration may not provide reliable predictions of results of an ongoing workfare program. Its review showed that workfare is administratively feasible with moderate administrative costs per client and, under some assumptions, benefits were comparable to or greater than the costs incurred. However, by requiring more recipients to participate, recent congressional action would tend to increase work and program savings benefits. Administrative costs would also be likely to increase because of the need to process a larger caseload. Future tests under expanded eligibility criteria and improved administration could provide different conclusions regarding costs and benefits and more concrete evidence concerning the effect workfare has on Federal food stamp benefit expenditures.

GAO's work confirmed conclusions in its earlier report that expanded workfare eligibility criteria, shorter job-search periods, stronger penalties for noncompliance, and better local administration would increase participation in the food stamp workfare program and provide additional program benefits. Because the recent legislative changes improving program design were not in effect for the demonstration, many workfare clients avoided some or all of their workfare obligation. Improved administration would have resulted in more able-bodied persons working and would have reduced program costs by denying some benefits to households that did not complete workfare job obligations.

Recommendations: GAO found numerous opportunities to enhance operational efficiency and workfare program benefits. However, this report did not contain any recommendations because the demonstration had ended and the Agriculture and Food Act of 1981 had enacted most of the legislative recommendations made by GAO before the House and Senate legislative committees in March and April 1981 testimony. Also, the program could lose its sole identity with food stamp benefits because that legislation provided States and local jurisdictions the option to implement food stamp workfare and consolidate it with other work-for-benefit-type programs. The report indicates that it would be valuable for Agriculture and workfare project officials to note the types of problems identified so that they could exercise appropriate cautions in avoiding pitfalls that detract from operational effectiveness and program benefits when designing and operating workfare programs.

Review of Accountability and Integrity in Food Stamp Program Benefit Determinations

(ongoing)

GAO has been reviewing the policies and procedures used to determine food stamp eligibility and benefit levels. The overall objective of this assignment--performed in eight States and now entering the report development stage--is to ascertain what improvements might be made in current and proposed food stamp legislation, regulations, and eligibility determination practices to reduce the number of ineligible program participants and the issuance of incorrect amounts of benefits. The most recent data generated from States quality control reviews for the first half of fiscal year 1981 shows that nationally nearly 10.6 percent of food stamp benefits are either being issued to ineligible households or overissued to eligible households. In addition, about 2.6 percent represented underissuances to eligible households. If these error rates continue at the same rate for the second half of fiscal year 1981, overissuances will total $1.1 billion and underissuances will be about $274 million.

In developing its report, GAO will discuss the scope, significance, and causes of errors in determining eligibility and benefit levels. GAO's audit work is showing that clients' failure to provide accurate data is the basic cause of most of the overpayments. However, food stamp offices' failure to obtain sufficient documentation and use client-reported or other available data also contributed to program losses. Quality control results which identify problem areas have not yet been used on a systematic basis to pinpoint specific causes of errors and develop concrete strategies for minimizing losses. Using this information to develop plans for better verification of client-reported data or detection of unreported details will be a necessary step to achieve error reduction. GAO will also be discussing the effect that current legislation, including that which was recently enacted, has or can have on program integrity and on efforts to administer the program.

Presently, GAO is analyzing and evaluating its review results with the intention of recommending actions that the Food and Nutrition Service and the States can take to reduce program losses due to errors in benefit determinations. GAO also will recommend, as appropriate, any needed legislative changes that would be beneficial to error reduction and program simplification.

Review of Identification and Recovery of Overissued Food Stamp Benefits

(ongoing)

GAO has been reviewing USDA and State efforts to identify and collect overissuances of food stamp benefits and, where appropriate, to pursue fraudulently obtained benefits through either court or administrative fraud procedures. This problem, a continuing one, was first reported by GAO in 1977. At that time, the Federal Government was losing over $500 million annually and little was being done to either identify specific cases where overissuance were occurring or to collect those already known to local food stamp officials.

Since then, benefits provided to food stamp recipients have doubled and, because the overissuance rate has remained fairly constant, the amount of excessive benefits has risen at a corresponding rate to about $1 billion annually. GAO's current work in 6 States is revealing similar problems to those reported on 5 years ago. Review efforts are concentrating on assessing the amount of effort and procedures being employed to identify specific households that have obtained more than the appropriate monthly allotment and to recover the excess benefits provided. Seemingly little attention has been focused on overt efforts to identify households against which claims should be established. Preliminary data suggests that States have done a better job of establishing claims, but collection efforts have not been very successful.

Administrative procedures to pursue food stamp recipient fraud enacted in 1977 and now in effect have not been widely adopted. Currently, less than half of the States have elected to pursue fruadulent activity administratively. Audit work still in progress is addressing the reasons for this and exploring possible alternatives to ease the burdens placed on the courts and to provide a more effective deterrent to fraud.

The Congress has already enacted several provisions in the 1981 Farm Bill and Omnibus Budget Reconciliation Act in an effort to ease the overissuance problem. GAO is evaluating those provisions in light of its review results to determine whether additional legislation may be desirable to help identify, recover, or deter improper issuances of food stamp benefits. GAO envisions that its report will also discuss the extent of attention given by USDA to overissuance recoveries and fraud pursuit, including regulatory requirements, technical assistance, and methods of encouraging more aggressive administration by food stamp agencies. Additionally, GAO is exploring available and innovative identification and collection techniques that might be useful in recovering overissuances.

Study to Determine the Number of, and Reasons for, Military Personnel Using Food Stamps

(ongoing)

On December 9, 1980, GAO reported (FPCD-81-27) that an estimated 19,700 military families were potentially eligible for food stamps. At the same time, however, various senior military officers indicated that 100,000 to 275,000 military families were using food stamps, and military service Secretaries cited the much higher estimates to justify large across-the-board pay raises. As a result, GAO undertook a followup study to obtain a better understanding of exactly which service members are potentially eligible for, and are using food stamps. GAO wanted to determine whether the large number of personnel cited as receiving food stamps were receiving them because (1) they either knowingly or unknowingly were not reporting miscellaneous, but substantial, pay items such as bonuses and special and incentive pays, and/or (2) USDA's income criteria permits military members to avoid having portions of their compensation included for purposes of determining eligibility.

That portion of GAO's study aimed at determining which military members are actually using food stamps, and why, is still underway. However, GAO's study indicates that USDA's income criteria permits some military members to avoid having their full pay package counted as income in determining food stamp eligibility.

The Congress has defined military compensation as consisting of (1) basic pay--always received in cash, (2) housing allowances--received in cash or in-kind, (3) subsistence allowances - received in cash or in kind, and (4) the Federal tax advantage resulting from the allowances which are nontaxable. USDA's income criteria, however, only includes cash income in determining eligibility for food stamps, thus excluding the noncash components of military pay in determining the eligibility of military members. As a result, similarly situated military members--i.e., same grade, years of service, and family size--are treated differently with respect to food stamp eligibility depending on whether they live on or off base. For example, an estimated 1,847 members at grade E-6 are eligible for food stamps simply because they receive part of their pay (housing) in-kind, whereas an estimated 2,655 similarly situated E-6s are not eligible because they happen to live off base and receive housing allowances in cash.

More Can Be Done To Improve The Department of Agriculture's Commodity Donation Program

(CED-81-83, July 9, 1981)

Background: In fiscal year 1980, State and local programs to feed students, the elderly, needy families, and others received over $900 million worth of food through USDA's commodity donation program. About 90 percent of the donated food was for the school lunch program administered by the Food and Nutrition Service. Two other USDA agencies provide the commodities.

Findings/Conclusions: USDA has not fully and accurately determined users' commodity needs, and States order commodities without determining user needs or preferences. GAO recognizes the difficulty of balancing the program objective of purchasing commodities for surplus removal and price support, with the objective of purchasing commodities that user agencies prefer and need. However, GAO believes that improvements can be made. At times, commodities are received too late for use or without advance notice. Occasionally, recipients have to purchase food items locally which they would normally receive through the program. USDA allows States to restrict the mode of transportation to truck or rail, which can result in excessive transportation charges. USDA should consider increased use of the free-on-board destination basis for procurement. It has been suggested that the commodity donation program be replaced with a cash or letter-of-credit voucher system. This would allow recipient agencies to purchase desired food items locally using cash or credit vouchers provided by USDA. Opponents fear a possible increase in opportunities for fraud and abuse, an increase in program costs, and a lessening of market surplus response capability. GAO believes that testing should provide Congress with needed data on the pros and cons of the alternative systems.

Recommendations: The Secretary of Agriculture should:

--Evaluate the potential and actual effects of the USDA section 32 commodity purchases on the market prices and quantities available.

--Establish specific procedures and a required reporting format to ensure that school districts' views on commodity preferences and needs are fully, accurately, and uniformly reflected in reports sent to State educational agencies by the State food distribution advisory councils.

--Specifically show in the annual purchase plan how user needs and preferences affect the amount of funds that may be spent on commodity purchases. Analyses should be included showing the weights given such factors as commodity availability, market prices, and fund availability.

--Require State distributing agencies to order commodities for recipient agencies based on demonstrated use and need rather than judgment and personal opinion.

To minimize situations in which State distributing and recipient agencies accumulate commodity inventories exceeding their needs and to improve overall effectiveness of the commodity donation program, the Secretary should revise appropriate program regulations to require FNS to develop a formal monitoring system setting forth data to be maintained by State distributing and recipient agencies, how the data should be analyzed, and who is responsible for the analyses.

To provide for better accountability of donated commodities, the Secretary should require that all recipient agencies:

--Maintain perpetual book inventories.

--Take periodic physical inventories and submit the results to the State along with copies of the source documents used.

--Explain any differences between physical inventory counts and perpetual inventory balances.

--Develop and report monthly to State distributing agencies data showing, at a minimum, (1) beginning inventory, (2) commodities received during the month, (3) commodities used during the month, (4) ending inventory, and (5) the value of commodities used per meal prepared.

GAO also recommended that the Secretary should direct FNS to:

--Develop a monitoring plan to be followed by State distributing agencies in monitoring commodity inventory levels at recipient agencies.

--Fully evaluate commodity inventory levels at the State distributing agencies by developing a monitoring plan that (1) requires States to continue to report commodity inventory levels as well as inventory levels in State-owned or -leased storage facilities, and to report inventory levels by program, (2) identifies the monitoring responsibilities of FNS headquarters and its regional offices, (3) specifies how those involved in monitoring should analyze the State inventory data and establishes reasonable timeframes for completing the analyses, and (4) specifies actions to be taken when FNS identifies problems with untimely, inaccurate, or incomplete reporting, excessive inventories, or lack of adequate inventory controls.

--Require that States develop procedures for distributing commodities to recipient agencies based on reported needs rather than allocating commodities based on the number of meals served.

To improve delivery aspects of the commodity donation program and overall program efficiency, the Secretary should:

--Revise USDA procedures to require that shippers provide specific written documentation regarding their inability to supply needed transportation and dates when the vendor requested transportation.

--Emphasize to the Agricultural Stabilization and Conservation Service the need to completely review vendor appeal cases and to sufficiently document its actions.

--Monitor FNS regional office efforts in getting States to adopt greater flexibility in the way they take delivery on commodities, and, if necessary, require States to annually update their delivery capabilities.

--Monitor the free-on-board destination procurement of fruits and vegetables for the needy family program and, where cost-justified, expand such procurement of fruits and vegetables to other programs receiving donated commodities.

Agency actions: USDA said that it is difficult to totally balance the seemingly conflicting objectives of the donation program to purchase commodities for surplus removal and price-support purposes with the need to meet recipient agencies' preferences and needs. Nevertheless, in its October 1981 statement of actions taken on the recommendations, USDA outlined the actions it has taken or plans to take to correct the problems to which the recommendations are directed. In response to inquiries made on March 25, 1982, USDA officials said that it is developing methods to order commodities based on demonstrated need and use for the commodities, and is studying ways to better coordinate the delivery of commodities based on reported need.

GAO Comments on the Impact of the USDA Reorganization on Nutrition

(CED-81-150, Aug. 17, 1981)

Background: GAO was requested to comment on the June 1981 reorganization of the USDA and its impact on nutrition. USDA is in the process of implementing the reorganization and identifying, addressing, and resolving the management and policy problems that occur with reorganization. In addition, details of the USDA nutrition policies had not been fully formulated. As a result, the comments are based primarily on what USDA officials told GAO and on the opinions of professionals from the nutrition community.

Findings: The USDA reorganization separates some of the USDA nutrition information functions from its nutrition research functions, and decentralizes its human nutrition research activities by transferring nutrition research activities from its former, high-level, separate-agency status to one of the component research programs of the Agricultural Research Service. According to the Secretary of Agriculture, the USDA restructuring was intended to (1) increase the efficiency of USDA without additional cost or increase in personnel, (2) focus direction of the agencies along lines of functional responsibility, and (3) have a positive impact on program effectiveness. Major concerns expressed by individuals both inside and outside USDA are (1) whether nutrition will be less visible and deemphasized, (2) how nutrition issues will be coordinated and integrated, (3) whether nutrition information policies, programs, and strategies will be adversely affected, and (4) whether nutrition research will continue to be supported under its new decentralized setup.

Efforts To Improve School Lunch Program--Are They Paying Off?

(CED-81-121, Sept. 9, 1981)

Background: School food service programs across the Nation, especially in high schools, are having difficulty in effectively providing lunches to the Nation's children. Many programs are faced with increasing meal costs, declining student participation, plate waste, and unanswered questions about the nutrients in the meals. GAO reviewed seven school districts to determine if their innovative approaches were solving or aggravating problems in the lunch program.

Findings/Conclusions: None of the high school lunch formats reviewed met the program's recommended dietary allowances (RDA's) even though the lunches as offered, on the average, met or exceeded the amounts of food required by USDA. Because students also eat at other times of the day, there may be no health risk associated with these nutrient deficiencies. Upgrading the lunches' nutritional quality to meet all the goals may be difficult and may not be feasible in all cases because attempts to improve nutrition may adversely affect participation, cost, and plate waste. A test of a computer assisted nutrient standard system of meal planning is being conducted to develop menus based on nutritional value of foods rather than the meal pattern. A review of program regulations called for in the Omnibus Budget Reconciliation Act of 1981 could have an important impact on the nutrient content of school lunches and on program goals. Offering high school students a greater food selection and improving the eating environment seem to increase program participation. GAO found less plate waste in programs using the fast-food format versus the conventional format and that offering a variety of foods from which students may choose helps to reduce plate waste. Having fast-food and salad formats, in addition to the conventional format in a lunch program, does not necessarily increase costs. However, school lunch costs in the school districts which GAO reviewed continually increased from school years 1976-77 through 1979-80.

Recommendations: The Secretary of Agriculture should take a fresh look at USDA's one-third RDA goal for school lunches and decide whether the achievement of some specified goal, such as one-third RDA, within acceptable limits of plate waste, cost, and student participation is considered unnecessary or impractical, and whether the goal should be dropped and the program should operate simply on the basis of providing a variety of foods within a specified meal pattern or some other achievable criteria. The Secretary should also decide whether serving lunches that will provide either one-third or some other specified percentages of the RDA's over time is considered important for students' nutritional well-being, and whether ways must be developed to ensure that the goal is essentially met within acceptable limits of plate waste, cost, and student participation. This could involve

(1) requiring that different quantities of food be served to different age groups, (2) specifying certain foods that must be served, (3) expanding the menu planning guide to include lists of foods for nutrients not currently listed, (4) providing guidance on how to incorporate certain hard-to-get nutrients into the lunches, (5) providing guidance on minimizing loss of nutrients through preparation and storage, and/or (6) implementing the computer assisted nutrient standard menu planning system nationwide--after working with school districts currently testing the system--to reduce the differences in expected and actual nutrient content of computer-planned meals. Other ways to achieve an RDA goal should be explored within USDA and with school food authorities and recognized experts in nutrition and food service.

Agency actions: USDA issued proposed regulations on September 4, 1981. These regulations proposed changing some of the portion size, requirements in the meal pattern and added to the creditable substitutions. The regulations proposed dropping the goal of one-third RDA. However, on September 25, 1981, the proposed regulations were withdrawn due to negative publicity and USDA is currently making changes with plans to reissue the regulations at an as yet unspecified date. USDA, in response to requirements in the Omnibus Budget Reconcilation Act of 1981, issued proposed regulations on March 22, 1982, extending the offer-versus-serve provisions to elementary schools. This menu plan would help to prevent waste by allowing students to refuse some of the food items offered them--items which they would not eat anyway.

Review of Federal Nutrition Education Efforts in Elementary and Secondary Schools

(ongoing)

The objectives of this study are to (1) examine the importance of nutrition education in the elementary and secondary schools to Americans and the Federal Government, (2) determine the extent of Federal involvement in nutrition education, and (3) identify areas where improvements could be made.

The responsibility for various aspects of nutrition education generally follows the traditional lines for education. A number of governmental agencies, as well as private sector entities such as the National Dairy Council, contribute toward nutrition education in the schools. USDA leads the Federal effort through its Nutrition Education and Training Program. The Department of Education also administers a number of programs, such as the Consumer and Homemaking Education and Follow Through Programs, which include or can include nutrition education. In addition, the Department of Health and Human Services has the Head Start Program which also includes nutrition education. State and local entities generally determine the role nutrition education plays in their programs.

GAO's study indicates that many experts believe that educating school children is the most effective way to develop a nutritionally informed population. In addition, nutrition education in the schools has the potential for reducing food waste in Federal feeding programs and in the home, and for reducing the Federal Government's need to (1) disseminate nutrition information to the public and (2) provide nutrition education for specific target groups outside of schools. GAO's study is also examining whether USDA can get more efficient use of limited resources through (1) the increased sharing of information on the benefits and pitfalls of past nutrition education efforts, (2) the development of nutrition education assessment tools, and (3) better coordination of nutrition education efforts.

U.S. Grain Transportation Network Needs System Perspective To Meet Future World Needs

(CED-81-59, Apr. 8, 1981)

Background: GAO examined the grain transportation system. It identified actual and potential bottlenecks, explained their significance, and explored the status of activities addressing them. The grain transportation system in the United States is complex and interrelated and involves railroads, waterways, roads, and ports. Changes and events in one area affect all others, straining their ability to perform efficiently.

Findings/Conclusions: Efforts to improve grain transportation tend to concentrate on individual transportation modes rather than on the transportation network as a whole. An integrated analysis that considers interrelationships between the various components of the grain transportation system has yet to be conducted. An analysis is needed of overall system constraints, interactions, and solutions to prepare for the export industry. Several problems threaten the ability of the grain transportation system to meet future demand: (1) the widely held notion of railcar shortages is symptomatic of a more serious problem, inefficient use of railcars, (2) the proportion of grain moved by truck has increased, (3) waterborne shipments continue to exceed forecasts, and there is widespread concern that the growth of grain exports could be limited by lock and dam constraints, and (4) each major grain exporting port GAO visited was hampered by problems of congestion and inefficiency.

Recommendations: The Secretary of Agriculture should review the level of resources available for focusing on the overall transportation system for the purpose of determining what adjustments are warranted. The Secretary should also (1) examine the impact of a changing railroad role in grain movement on alternative modes of transportation and export facilities, (2) explore the relationship of grain shipments via the Mississippi River and the Great Lakes and the capability of the Welland Canal to accommodate projected Great Lakes grain shipments, and suggest actions that could be taken to improve movement through the canal, and (3) determine the impact of port congestion and inefficiencies on the entire grain transportation system and help involved parties find solutions to improve overall system effectiveness. In addition, the Secretary should (1) expand the monitoring of the grain transportation system to identify potential bottlenecks and analyze their impact on the total grain transportation system, and (2) bring together industry, labor, and Government to explore the best way to alleviate present bottlenecks and forestall future ones.

Agency comments/actions: USDA concurred with GAO's recommendations and has taken actions to implement several of the recommendations, including (1) initiating a feasibility study to assess alternative methods by which grain may by-pass dams without locks or dams having congested or inoperable locks on inland rivers, and (2) currently developing a computer information system that will centralize data from government and industry on transportation of agricultural commodities and supplies and enable USDA to better monitor and analyze the grain transporation system.

Department of Agriculture Should Have More Authority to Assess User Charges

(CED-81-49, Apr. 16, 1981)

Background: USDA provides a wide range of services designed to aid the orderly marketing of agricultural commodities. These include (1) inspecting, grading, or classing a host of diversified commodities (ranging from meat to turpentine), (2) disseminating price information via numerous market news reports, and (3) regulating through, such services as licensing and examining commodity warehouses and inspecting meat and poultry plants. GAO examined how USDA administered user charges for its services.

Findings/Conclusions: Marked differences existed in the degree to which users bore the costs of services. As a result, certain sectors of the agricultural marketing industry were receiving preferential treatment at taxpayers' expense. The inconsistencies and inequities in USDA's application of user charges were caused by differences in the legislative funding provisions covering individual programs and problems in implementing user charges under the so-called User Charge Statute (title V of the Independent Offices Appropriation Act) when no specific legislative authority existed. In GAO's opinion, if recipients were charged for all costs except those which can be readily identified with public benefits, the inconsistencies and inequities would be eliminated and Federal appropriations could be reduced. GAO concluded that USDA could realize substantial savings if it were to move to a system of periodic unannounced inspections at federally inspected meat and poulty processing plants and if the plants were required to have total in-plant quality control systems.

Recommendations: The Congress should repeal the Naval Stores Act and the Tobacco Seed and Plant Exportation Act of 1940; discontinue providing special appropriations to defray a portion of the supervision costs incurred in the poultry and fresh fruit and vegetable grading programs; either amend the User Charge Statute or enact new general user charge legislation to make it clear that an agency may set fees to recover the full cost of a program that primarily benefits identifiable users; amend the Warehouse Act to provide for user funding of periodic examinations; amend the Grain Standards Act, the Cotton Statistics and Estimates Act of 1927, and the Tobacco Inspection Act of 1935 to delete provisions that require appropriations funding and/or limit the use of user charges; amend existing legislation to authorize USDA to charge importers fees which cover all costs of inspecting and testing imported birds (both commercial and pet) and other animals. Furthermore, the Congress should amend the Federal Meat Inspection Act and the Poultry Products Inspection Act to authorize the Secretary of Agriculture to require all federally inspected meat and poultry processing plants to develop and implement quality control systems. GAO also recommended that the Secretary of Agriculture order further internal studies to determine appropriate funding policies for a number of other services, including printed market news reports.

Agency actions: The Omnibus Reconciliation Act of 1981 (P.L. 97-35, Aug. 13, 1981) made the following legislative changes in line with GAO recommendations and with proposals accompanying the President's revised fiscal year 1982 budget; (1) temporarily amended the U.S. Grain Standards Act to authorize recovery through user fees of supervision and administrative costs of grain inspection and weighing services, and (2) temporarily amended the Cotton Statistics and Estimates Act and permanently amended the Tobacco Inspection Act, U.S. Warehouse Act, and Naval Stores Act to authorize user fees for cotton classing, tobacco inspection, warehouse examination, and naval stores grading services. Based on USDA's estimates for fiscal year 1982, these changes should result in annual savings in appropriated funds of about $48 million. These savings, however, will be reduced substantially after fiscal year 1984 unless the Congress extends the effective dates of the temporary amendments to the grain and cotton legislation. USDA also now plans to start charging fees to recover postage, printing, and handling costs of printed market news reports.

The Federal Role in Developing Grain Subterminals Should Be Coordinated by the Department of Agriculture

(CED-81-101, May 14, 1981)

Background: In response to a congressional request, GAO reviewed selected activities on the development of subterminal grain storage facilities. The review was concentrated in States with significant grain production, available information, and the potential for subterminal development and improvement. The GAO objective was to gain an understanding of subterminal development benefits, obstacles, and potential.

Findings/Conclusions: Farmers have benefited from subterminals because they receive higher prices for their grain and they are able to sell more grain when prices rise. Elevators that have become subterminals as a result of the construction of new, larger facilities or the upgrading of existing ones have benefited by significantly increasing their grain volume. The larger volumes reduce handling costs by spreading fixed costs over larger grain volumes. Subterminals generally have lower variable costs than older grain elevators and pay less for transportation due to lower multiple-car and unit-train rates. Railroads have benefited from subterminals by becoming more price competitive with barges and trucks through the cost efficiencies of multiple-car and unit-train shipments, thus softening the decline in the railroads' market share of grain shipment. In addition, the faster turnaround times of multiple-car and unit-train shipments have enabled railroads to haul more grain with the existing fleet of rail cars. The potential exists for further development of subterminals since their operations are more adaptable to high-yield-per-acre crops. They may also be feasible for lower yielding crops-per-acre in certain circumstances. Problems involving subterminals which adversely affect their operations and future development include failure of some railroads to offer multiple-car and unit-train rates, overdevelopment, and port congestion. Recently enacted legislation authorizes planning grants for developing State and regional subterminal facilities plans and insured construction loans.

Recommendations: The Secretary of Agriculture should establish in USDA a focal point to oversee Federal subterminal planning and construction activities. Potential borrowers/grantees can then contact such a focal point for obtaining USDA subterminal planning, construction, and improvement funds as well as learn the sources of all other Federal programs that can provide funding for subterminal development. This focal point should be publicized by contacting State departments of transportation and agriculture officials and researchers, State grain and feed dealers associations, and other agricultural associations.

Agency comments/actions: USDA generally agreed with GAO's recommendation, however, USDA does not intend to take action to more clearly define a focal point to oversee Federal subterminal planning and construction until funds have been appropriated to administer provisions of the Agricultural Subterminal Storage Act of 1980 (Public Law 96-358). As of March 25, 1982, the Congress had not appropriated funds to administer the Act.

More Can Be Done To Protect Depositors at Federally Examined Grain Warehouses

(CED-81-112, June 19, 1981)

Background: USDA administers a voluntary licensing and examination program under the U.S. Warehouse Act. In addition, it sets requirements for and examines contract warehouses storing commodities owned by the Commodity Credit Corporation (CCC) or pledged to CCC as loan collateral. These programs are designed to protect depositors primarily by ensuring that warehouses have enough grain of the proper quality to meet their storage obligations. To avoid duplication of other ongoing studies, GAO limited its review to the magnitude of the bankruptcy problem to date, the number of warehouses in financial difficulty, ways the current Federal program could be strengthened, and issues that should be considered in evaluating certain possible program and legislative changes.

Findings/Conclusions: GAO found that about 2 percent of the Nation's approximately 10,000 grain warehouses went bankrupt from 1974 to early 1981. On the basis of self-developed criteria, GAO concluded that a greater percentage may be in financial difficulty--an estimated 4.75 percent (300) of grain warehouses subject to Federal examination. While GAO's estimate did not mean that 300 bankruptcies were likely, GAO felt the estimate was a cause for concern in light of the much lower rate of actual past bankruptcies. GAO felt that a financial formula for predicting grain warehouse bankruptcies would provide USDA more reliable data on the magnitude of the potential bankruptcy problem--information which GAO believed should be considered in assessing the need for significant, and possibly costly, expansion of Federal efforts. GAO felt this information also would be useful in setting priorities and frequencies for USDA's examinations. In addition, GAO noted certain weaknesses which limited the effectiveness of USDA's warehouse examinations and its review of financial data submitted by warehouse operators.

Recommendations: The Secretary of Agriculture should direct the Administrator of the Agricultural Marketing Service to develop and implement a predictive formula for grain warehouse bankruptcies before USDA decides what actions to take on threatened insolvencies. The Secretary should direct the Administrators of the Agricultural Marketing Service and the Agricultural Stabilization and Conservation Service to require that all federally licensed and CCC contract grain warehouses give depositors warehouse receipts for all storage grain as soon as is practicable after delivery is completed. The Secretary should direct the Administrator of the Agricultural Stabilization and Conservation Service to ensure that all CCC contract grain warehouses use warehouse receipts that can be accounted for during Federal warehouse examinations. Ways of doing this include: (1) encouraging States with insufficient controls over the printing and distribution of warehouse receipts to upgrade their requirements, and (2) requiring adequate controls as a prerequisite for obtaining a storage contract.

Also, the Secretary should direct the Administrator of the Agricultural Marketing Service to require that:

--Grain storage obligations reflected on warehouse customer account records be verified with a statistical sample of depositors as part of normal subsequent examination procedures employed at federally licensed and CCC contract grain warehouses.

--Value be fixed for assets according to generally accepted accounting principles.

--Federally examined warehouses submit the financial data necessary to compute commonly used ratios indicative of financial health computations be done to determine the trend of these ratios as part of their routine financial reviews.

Agency actions: As of March 4, 1982, USDA was in the process of trying to develop a predictive formula. It had completed a literature search to identify work which had been done in this area and it was evaluating the results of the only known research effort. USDA also had proposed but not yet finalized regulations which would require operators of federally licensed and CCC contract warehouses to submit annual financial statements prepared by independent public accountants. USDA said this would negate the need for specific instructions regarding preparation of financial forms (since the statements would have to be prepared in accordance with generally accepted accounting principles) and that it would make available data needed to compute generally accepted financial ratios. USDA said (1) that it would require reconciliation of warehouse receipts to the public accountant financial statements instead of requiring CCC contract warehouses to use receipts that can be accounted for during Federal examinations, and (2) that it had increased the number of source documents traced through warehouse records rather than verifying warehouse records of storage obligations with a statistical sample of depositors. USDA did not believe it should set a deadline for issuance of warehouse receipts. It said that many receipts likely would not be delivered to or accepted by depositors and that such receipts are more dangerous than no receipts in terms of determining a warehouse's storage obligation. It also maintained that considering increases in the values of fixed assets is appropriate in some cases when determining a warehouse's net worth.

Weak Management in Animal Disease Control Program Results in Large Economic Losses

(CED-81-96, June 24, 1981)

Background: USDA's Animal and Plant Health Inspection Service is responsible for conducting regulatory and control programs to protect and improve the Nation's animal and plant resources. The Service has two basic units: Veterinary Services, and Plant Protection and Quarantine. GAO reviewed the Veterinary Service's Brucellosis Eradication Program to determine whether improvements could be made.

Brucellosis is a bacterial disease which attacks the reproductive system of livestock, causing abortion, slow breeding, and sterility. Since the brucellosis eradication program started in 1935, Federal, State, and industry control efforts have cost over $2 billion. It is estimated that an additional $1.1 billion would be needed by the year 2000 to eradicate the disease.

Findings/Conclusions: Progress in the Brucellosis Eradication Program has been impeded because several disease control measures have not been implemented effectively. Some animals sold at livestock markets and identified as infected could not be traced to their herds of origin because of inadequate control over the collection of ownership information and the identification tagging of animals. Herds were not always tested in time to assure that infection was expeditiously identified. Controls were not always used to make sure that all animals in quarantined herds were accounted for from test to test so that any infection was identified as quickly as possible.

Field personnel had not always followed procedures to locate herds exposed to disease by cattle purchased from herds subsequently found to be infected. While field personnel often attributed these operational shortcomings to lack of industry cooperation or personnel shortages, GAO found that weaknesses in the management systems were a primary cause of ineffective implementation of disease control measures. The management systems do not provide assurance that field personnel and each organizational unit know what is expected of them in implementing these measures, nor do they provide guidance for measuring performance regarding these expectations.

Recommendations: The Secretary of Agriculture should direct the Administrator, Animal and Plant Health Inspection Service, to take a number of actions to improve Veterinary Services' management systems, including providing (1) instructions to field personnel on proper implementation of disease control measures,

(2) goals which emphasize improved implementation of disease control measures, (3) an information system which collects and analyzes data to measure each organizational unit's performance and progress in implementing disease control measures, and (4) a clear line of authority and responsibility for field operations.

In addition, the Secretary of Agriculture should direct the Administrator, Animal and Plant Health Inspection Service, to strengthen animal disease control regulations and improve enforcement efforts by taking action to (1) collect and analyze information on the cost and effectiveness of brucellosis testing requirements for interstate movements, (2) consider the effectiveness of dealer recordkeeping provisions in certifying a State's animal disease status, (3) realign the enforcement work force to provide stronger central direction and coordination and assign personnel with the necessary training and experience to pursue improper health certification cases, and (4) resubmit to the Congress the legislative proposal authorizing civil penalties.

Agency actions: As stated above, GAO has recommended improvements in management systems and identification and control procedures aimed at strengthening the program. The Administrator has proposed eliminating the federally financed brucellosis control "eradication" program. GAO has not determined whether elimination of the program would be cost-effective to the Government as well as the livestock industry. If the Congress wishes to reduce Federal spending in this area, they may wish to consider a user charge program for producers in high-incidence States.

Farmer-Owned Grain Reserve Program Needs Modification To Improve Effectiveness

(CED-81-70, June 26, 1981)

Background: The farmer-owned grain reserve, authorized by the Food and Agriculture Act of 1977, is to encourage producers to store wheat and feed grains when they are in abundant supply and extend the time for their orderly marketing. Under the program, USDA provides loans and storage payments to producers who place their grain in the program. The program is operated through USDA's Commodity Credit Corporation and is administered by USDA's Agricultural Stabilization and Conservation Service (ASCS).

Findings/Conclusions: GAO and its consultants found that, during its first 2 to 3 years, the farmer-owned reserve (FOR) only partially met its objectives of increasing grain inventories in times of abundant supply, removing the Government from the role of grain storer, and reducing price variability. Some reserve grain is of questionable quality, and storage payments have exceeded storage costs. As of March 18, 1981, the reserve contained about 1.2 billion bushels of wheat, corn, and other grains. The value of outstanding loans on these reserve grains was about $2.9 billion. The reserve grain cannot be sold without penalty until predetermined market price levels are reached. At release, producers may, but do not have to, remove the grain from the reserve. At call, producers must repay their loans or forfeit the grain. Most reserve grain would have been held in private stocks without the reserve. Although the reserve initially succeeded in ensuring producer ownership of reserve stocks, the Government now holds grain purchased in reaction to the Russian grain embargo. Program modifications are needed to improve the program's effectiveness. Producers had been allowed to retain unearned storage payments for an unreasonable period of time when the redemption period was extended. Although program procedures were amended to provide that interest be charged immediately following the maturity date or the originally required settlement date, the program regulations were not amended to make them consistent with the procedures.

Recommendations: The Secretary of Agriculture should evaluate the effectiveness of the FOR to serve as a basis for the Congress to use in making future grain policy decisions. The Secretary of Agriculture should study the feasibility of other FOR program modifications and, if they provide remedies to the problems that were found, incorporate them into the program. The Secretary of Agriculture should require ASCS to obtain official grade determinations, on a sample basis, as grain enters the FOR and on the same grain each subsequent year (where possible), to develop a profile of FOR grain and determine what characteristics are predictors of storability. The Secretary of Agriculture should require ASCS to improve its guidelines and procedures for identifying grain with quality problems serving as loan collateral and correcting or eliminating quality problems identified. The Secretary of Agriculture should amend program regulations to make them consistent with ASCS procedures which provide that storage earnings stop in all cases when a grain reaches call status. The Secretary of Agriculture should provide for methodical program adjustments in response to a broad range of potential market and political developments to allow decisionmakers in grain and related industries to anticipate such changes and adjustments, while still allowing for some flexibility.

Agency actions: USDA agreed that (1) the effectiveness of FOR should be evaluated, (2) the feasibility of other FOR program modifications should be studied and incorporated if they provide remedies to existing problems, and (3) methodical program adjustments should be provided for. USDA said that it was reviewing all aspects of FOR and that it would work with Congress to provide a workable and cost-effective program. USDA has not yet required ASCS to obtain official grade determinations, on a sample basis, as grain enters the reserve because it said that the two primary elements which increase the probability of grain storage are excess moisture and insects. Also, USDA believes that its procedures for correcting problems could be improved. In its March 1981 response to a draft of the report, USDA said that procedures for correcting problems were being expanded to require that farmers be notified when problems are found and that action be taken to eliminate the problem or the loan will be called. USDA has not amended program regulations to make them consistent with its procedures to stop storage earnings in all cases when a grain reaches call status.

Analysis of Certain Aspects of the California-Arizona Navel Orange Marketing Order

(CED-81-129, July 2, 1981)

Background: In response to a congressional request, GAO reviewed certain aspects of the California-Arizona navel orange marketing order and provided background information on marketing orders in general and more specifically on the navel orange marketing order.

Findings/Conclusions: GAO found that (1) the Navel Orange Administrative Committee's composition, which is established in Federal regulations, only assures adequate consideration of navel orange industry interests because it consists primarily of industry members, (2) about 83,000 tons of oranges from the 1980-81 crop were sold as cattle feed, (3) there was no evidence that fruit was dumped or otherwise destroyed, (4) 1980-81 orange prices may have been lower without the marketing order, but the long-range implications of marketing order termination are unknown, (5) many of the oranges fed to cattle came from groves receiving Federal water but it would be very difficult, if not impossible, to determine exactly how many oranges, (6) the composition of the marketing order Committee does not violate Federal conflict-of-interest laws, (7) the Navel Orange Administrative Committee does not have the authority to advertise oranges generically, but growers who favor generic advertising are seeking ways of doing this outside of the Committee, (8) handlers who have spoken out against the marketing order have not been audited more frequently than others, and (9) two growers have received extra compensation for serving on the Committee, but this practice has ceased because USDA said it was unacceptable and would result in removal of the growers from the Committee.

GAO's report also discusses certain issues and views that the Congress should be aware of if it considers a change in the Navel Orange Administrative Committee's composition or operations. This discussion includes many views on what is in the public interest, information on the complexity of the navel orange industry, and the need for criteria to measure whatever the Congress finds to be in the public interest.

Information on Peanut Allotment Owners That Lease and Rent Away Rather Than Plant Their Peanut Allotments/Quotas

(CED-81-56, Sept. 21, 1981)

Background: Prior to Congress' deliberations on the 1981 farm legislation, GAO received a Congressional request for information on certain aspects of USDA's peanut program. The requestor was proposing amendments to the 1981 farm legislation provision covering the peanut program and needed certain information concerning peanut allotments/quotas. More specifically, the requestor asked GAO to

--determine the availability of certain information in records the Department of Agriculture maintains of the peanut program;

--determine the validity of the Department's estimate that 70 percent of the peanuts grown in the United States are produced using leased/rented allotments and quotas; and

--obtain information on the occupations and/or primary sources of income of the allotment owners who lease or rent away their allotment/quota.

Findings: GAO's review disclosed that:

--County offices of USDA's Agricultural Stabilization and Conservation Service maintain records on individual leases and rentals 1/ of peanut allotments; however, only those on leases are summarized for internal agency reporting purposes. The Service's records do not show the primary occupation or sources of income of the allotment owners.

--USDA's estimate that 70 percent of peanut allotment acreage planted is leased or rented is based on data obtained from a 1978 survey. The purpose of this survey was to obtain information on peanut production practices in selected growing areas. Because it was not a comprehensive study, not all peanut-producing States and counties were represented and only a small number of producers were contacted in the selected areas. Therefore, the data contained in the survey cannot be projected across the whole program.

1/The peanut program permits the leasing of allotments--that is, the transfer of an allotment and quota from the allotment owner's farm to a lessee's farm. The other method of transferring an allotment is the renting of the allotment owner's land and allotment to the producer.

- Data GAO developed on the extent of peanut allotment leasing/renting in four selected counties in Alabama, Georgia, Texas, and Virginia indicated that a significant number of the allotment acres are leased or rented. The largest amount was in Prince George County, Virginia, where 74 percent of allotment acreage used was leased and rented. The smallest amount was in Comanche County, Texas where 57 percent was leased and rented.

- Data GAO obtained on the occupations or sources of income of the allotment owners disclosed that much of the allotment acreage used was not owned by farmers, retired farmers or widows of farmers: 51 percent of the allotment acreage used in Prince George County, 49 percent in Worth County, and 23 percent in Comanche County were owned by non-farming individuals and companies.

Review of the Federal Crop Insurance Program

(ongoing)

GAO is reviewing the Federal Crop Insurance Corporation (FCIC) to determine whether its program for delivering crop insurance to producers could be operated more efficiently and economically.

FCIC was created in 1938 for the purpose of improving the economic stability of agriculture through a sound system of crop insurance. Prior to 1980 the program had been operated on a very limited basis and had been characterized by some as an experimental program. In 1980 the FCIC Act was amended to provide for a nationwide expansion of the insurance program. The amendment provides for an actuarially sound cost-sharing insurance program for agricultural producers to protect their production investment against essentially all unavoidable risks. GAO's review is directed at answering the following questions.

- Are the rates of compensation for the different arrangements with the private sector to sell and service insurance reasonable in relation to the service being provided and consistent with those prevailing in the insurance industry?

- In view of the substantial increase in costs anticipated by using the private sector to deliver the program is there a need for Congress to reconsider this approach to make the program more efficient and cost effective?

- To make the program eventually self sustaining and independent of Government funding, is there a need for Congress to reconsider whether all costs, including administration, should be included in the basis used in establishing premiums, rather than only the cost of losses paid to producers?

- Is the methodology used by FCIC in developing and updating the actuarial base adequate to cover the losses and establish a reasonable reserve?

- Are the compensation rates established for contract loss adjusters reasonable in relation to FCIC prior costs for such services?

Review of the Mediterranean Fruit Fly and Gypsy Moth Programs

(ongoing)

On October 1, 1981, GAO received a request from the Chairman of the House Agriculture Subcommittee on Department Operations, Research and Foreign Agriculture asking for an indepth look at USDA's Animal and Plant Health Inspection Service's (APHIS's) decision-making process. GAO will look at that process in the context of 2 specific programs which are presently of great concern to large segments of the country--namely the Mediterranean fruit fly and the gypsy moth programs. The Medfly threatens the $15 billion a year California agriculture industry and the gypsy moth destroys millions of acres of trees each year.

Recently much controversy has surrounded these 2 programs--e.g., dockworkers in California are being exposed to hazardous levels of EDB (a chemical used to fumigate suspect fruit); aerial spraying of malathion, an approved pesticide, is still of great public concern around the San Francisco Bay area; and the obvious fact that the gypsy moth continues to spread throughout the country despite years and millions of dollars of eradication attempts.

The scope of this assignment was broadened to include other agencies--including the Agricultural Research Service, the Environmental Protection Agency, and the Occupational Safety and Health Administration--which have significant roles in the effectiveness of these two programs.

GAO's report will address the effectiveness of USDA's Mediterranean fruit fly and gypsy moth programs.

Review of the Operations and Effectiveness of the Commodity Futures Trading Commission

(ongoing)

This study consists of an evaluation of the regulatory performance of the Commodity Futures Trading Commission (CFTC) and the ability of CFTC to ensure effective regulation of commodity futures trading as well as trading in related commodity instruments. GAO's study is to assist the Congress in its second "sunset" reauthorization review of CFTC and in many respects followup on GAO's first CFTC sunset review performed in 1977-78. That review resulted in a report entitled "Regulation of the Commodity Futures Markets--What Needs To Be Done," (CED-78-110, May 17, 1978).

A draft report of GAO's recent work was provided to CFTC for comment on February 16, 1982 and was simultaneously transmitted to interested Congressional committees, including CFTC's legislative oversight committees (the House Committee on Agriculture and the Senate Committee on Agriculture, Nutrition and Forestry); the House and Senate Appropriations Committees; the Subcommittee on Commerce, Consumer and Monetary Affairs of the House Committee on Government Operations; and the Permanent Subcommittee on Investigations of the Senate Governmental Affairs Committee. Copies of the draft report were also provided to interested Executive Branch agencies, including the Departments of Agriculture, Treasury and Justice.

GAO's study is primarily concerned with CFTC's implementation of the broad congressional mandate conferred upon it when it was created in 1974 and essentially reaffirmed during reauthorization in 1978. In particular, GAO reviewed those CFTC regulatory programs (e.g. market surveillance, contract market approval, registration, and rule enforcement reviews) with objectives of protecting market integrity and protecting rights of futures market participants. GAO also evaluated the need for reassessment of program priorities and realignment of regulatory roles (as between the CFTC and industry self-regulatory bodies) in light of the rapid growth and diversification of the futures industry and in view of the exigencies of Federal budget restraint.

As an active participant in the CFTC reauthorization process, which began formally in late February 1982 with the commencement of legislative reauthorization hearings, GAO has testified four times before Congressional bodies concerned with the regulatory performance of CFTC, including on February 23, 1982 before the Subcommittee on Conservation, Credit and Rural Development of the House Committee on Agriculture and on March 2, 1982 before the Subcommittee on Agricultural Research and General Legislation of the Senate Committee on Agriculture, Nutrition and Forestry. GAO testified as to the need for continuing and strengthening major regulatory programs administered by CFTC as well as transferring certain regulatory functions to self-regulatory groups in the private sector which are in a position to assume responsibility for activities such as registration, audits and financial surveillance and arbitration of commodity disputes.

Review of the Wool Incentive Program

(ongoing)

The National Wool Act of 1954, the authorizing legislation for USDA's wool incentive program, stated that wool is an essential, strategic commodity not produced in sufficient quantities and grades to meet domestic needs. The program provides payments to wool producers to encourage wool production and improve wool quality. Program payments in market year 1980 amounted to $36 million.

The objectives of GAO's review are to determine whether the wool incentive program has encouraged wool production and improved wool quality. In addition, because the wool program has not been substantially revised since it was established, GAO wanted to determine whether the program's objectives conform to conditions that exist today.

Review of USDA's Tobacco Program

(ongoing)

GAO is reviewing USDA's tobacco program at the request of the Chairman of the Senate Appropriations Committee and the Ranking Minority Member of that Committee's Subcommittee on Agriculture, Rural Development and Related Agencies. Regulation of the program is accomplished through acreage allotments, marketing quotas and price-support programs. As requested, GAO will address the effects that the allotment and quota and price-support systems have on the cost of domestic tobacco and on its marketability. A related issue also being addressed is tobacco that warehouses are allowed to market as floor sweepings.

GAO's review is being made in the major growing areas of the flue-cured and burley tobacco belts. GAO randomly selected 16 counties in North Carolina and Virginia which grow flue-cured tobacco and 16 counties in Kentucky and Tennessee which grow burley tobacco. Thirty farms were then randomly selected from within each county. Appropriate weights were assigned during the selection process so that the data obtained from this statistically valid sample can be projected to the major tobacco growing areas.

Survey of Farm Income Stabilization

(ongoing)

This survey deals with deficiency payments made for the wheat crop. Deficiency, or target price, payments are the basis for providing direct income support payments to farmers who participate in the wheat programs. The Agriculture and Consumer Protection Act of 1973 introduced the target price/deficiency payment program to support farm income when market prices for certain commodities fell below the established target price for that commodity. In 1977 wheat producers were paid almost $1 billion in deficiency payments and in 1978 they were paid over $600 million. Deficiency payments will be payable to farmers for their 1981 wheat crop, however, the amount has not yet been determined.

While the target price concept has been viewed as a necessary move toward a market-oriented farm policy, the program has involved substantial budget outlays. GAO plans to examine the role of deficiency payments and how payment information is being collected and verified.

Continuation of the Resource Conservation and Development Program Raises Questions

(CED-81-120, Aug. 11, 1981)

Background: USDA's Resource Conservation and Development (RC&D) program provides technical and financial assistance to local sponsors to prepare area plans for resource conservation and economic development and to plan and install community-type conservation projects or measures. GAO reviewed the RC&D program and cited administrative and legislative changes needed to improve the control and operation of the program.

Findings/Conclusions: GAO was unable to develop a clear picture or measure of overall benefits under the program because program accomplishments were not clearly distinguishable at either the project or measure level. The principal problems involved lack of useful data, the intangible nature of some benefits, and varying or unknown degrees of project involvement. GAO was able to obtain cost information on the overall program and on each project but not on individual project measures. Pertinent technical assistance costs were not shown for individual measures. The omission of technical assistance costs in reporting completed measures seriously limits any attempt to evaluate the program's benefits in relation to its costs. Funds appropriated for cost sharing with local sponsors under the program have been used to finance many measures for which other Federal programs have been established. Once projects are authorized, they remain on the rolls indefinitely. Federally assisted sub-State planning organizations have the potential to become an alternative delivery system for activities carried out under the program because they perform many of the same functions. Some projects' area plans which specify goals and objectives and measures to be undertaken have not been updated as required by program procedures.

Recommendations: If Congress decides to continue the RC&D program, it should legislatively:

--Discontinue the use of program funds for installing project measures currently authorized for financing under cost sharing arrangements.

--Require the Secretary of Agriculture to establish procedures for periodically reviewing project operations and deauthorizing projects which are no longer active or have developed the capabilities necessary to continue operating without Federal involvement.

--Direct the Secretary of Agriculture to establish several pilot projects where sub-State organizations would assume the functions of RC&D projects. Upon completion of such tests, the Secretary should be required to provide Congress an evaluation of the test results with such recommendations as may be indicated for transferring additional RC&D project functions to sub-State organizations or the reasons for retaining the functions within the existing RC&D program structure.

On the basis of a continuing program, GAO recommends that the Secretary of Agriculture should require the Soil Conservation Service to:

--Account for and identify the costs of providing technical assistance for each project measure.

--Improve its program information system to provide data which would permit better assessment of project benefits.

--Monitor the program more closely to assure that the projects' area plans are up to date and reflect any changed conditions in project circumstances.

--Develop and incorporate an approved evaluation procedure into the program's management process.

Agency actions: In a letter dated June 19, 1981, USDA generally agreed with all but one of the GAO recommendations and outlined actions it was taking or planned to take. It did not agree with the GAO recommendation that Congress eliminate program cost-sharing. In a letter dated November 16, 1981, USDA stated that the Administration's budget policy for RC&D is to discontinue the program and that our recommendations for major data gathering and program evaluation efforts are not being considered by policy officials at this time. The Administration's 1983 budget proposal provides for the phase out and termination of the program by the end of FY 1983.

Comments on the U.S. Department of Agriculture's 1981 Program Report and Environmental Impact Statement (Revised Draft)--Soil and Water Resources Conservation Act--Issued November 1981

(CED-82-41, Jan. 29, 1982)

Background: The Soil and Water Resource Conservation Act of 1977 (Public Law 95-192) required the Secretary of Agriculture to develop a national program to further the conservation of soil and water resources because individual and governmental decisions concerning soil and water resources often transcend administrative boundaries and affect other programs and decisions. In November 1981, the Secretary presented a revised draft of a preferred program to comply with the 1977 act. In response to the Secretary's request, GAO reviewed and commented on the revised draft report, outlining USDA's proposed preferred national soil and water conservation program.

Findings/Conclusions: GAO believes that although USDA has spent considerable effort reviewing the adequacy of the Nation's soil and water resources, improved analysis, program evaluation, and coordination are needed to achieve an effective appraisal and program framework. USDA will not have the basis for the effective program intended by the 1977 act until it:

--Conducts a thorough assessment of soil and water resource conditions to better define the problems.

--Evaluates the overall effectiveness and progress of ongoing soil and water programs.

--Evaluates sufficient alternatives for conserving U.S. soil and water resources.

--Analyzes the impact of other Government programs on soil and water resources to ensure the best use of limited resources and avoid duplication of effort among Federal agencies.

Recommendations: USDA should not implement its proposed preferred program until additional analysis, program evaluation, and coordination are achieved. GAO also developed a methodology that could be used in gathering and analyzing the basic data needed. GAO's report, "A Framework and Checklist for Evaluating Soil and Water Conservation Programs," (PAD-80-15, Mar. 31, 1980) sets forth guidelines that could assist USDA in obtaining information needed to develop an effective program to improve resource conditions within limited budget resources.

Agency actions: USDA has not yet taken any action. It is still in the process of evaluating the many comments it received on its proposed preferred program.

Review of Energy Conservation in Agricultural Production

(ongoing)

This review was undertaken at the request of the Chairman, Subcommittee on Energy Conservation and Power, House Committee on Energy and Commerce, to find out what opportunities were available to farmers for conserving energy in the near-term and how Federal agencies could assist farmers in adopting near-term energy conservation measures. USDA believes the potential for saving energy on farms through identified conservation practices is substantial, amounting to over 20 percent of current energy use.

In order to respond to the Chairman's questions, GAO's objectives are to identify

--which areas offer the greatest potential for near-term energy savings in farming operations;

--the barriers, if any, that are impeding the widespread adoption of conservation measures in these areas; and

--the steps, if any, the Federal Government could take to remove the barriers and accelerate the adoption by the farmer of near-term energy conservation measures.

GAO's work focuses primarily on opportunities to save energy in crop production because it uses almost 90 percent of all energy used in agricultural production. Livestock production accounts for the other 10 percent of on-farm agricultural energy use.

GAO's work centers on the energy-conservation activities of both USDA and the Department of Energy (DOE). Although DOE has sponsored some demonstration projects related to agricultural energy conservation, USDA is primarily responsible for assisting farmers and is the only Federal agency with a field network capable of reaching them individually. Consequently, GAO expects any recommendations resulting from this study will be addressed primarily to USDA. GAO submitted its draft report to USDA for comment on March 25, 1982.

Review of USDA's Major Soil Conservation Programs

(ongoing)

This assignment involves GAO's evaluation of the three major USDA soil conservation programs--the Conservation Operations Program, the Agricultural Conservation Program, and the Great Plains Conservation Program--which were established to help mitigate the effects of soil erosion.

Soil erosion has been a continuing problem on the Nation's agricultural land despite many years of Federal programs for assisting farmers and ranchers to practice or construct conservation measures. In recent years, the severity of erosion has increased at many locations due in part to the incentives to farmers to increase production. An estimated 5 billion tons of sediment and topsoil are eroded annually, much of which is washed into lakes and streams. About one-fourth of our cropland is losing topsoil faster than it can be replenished.

A prior GAO review of these conservation programs was completed in 1977. The report was critical of USDA's failure to direct its programs to the most serious erosion areas and to assign priority to the most effective practices.

GAO's current review is a follow-up on its prior review and involves an assessment of programs in seven States--Illinois, Iowa, Kansas, Minnesota, South Dakota, Tennessee, and Washington. GAO is conducting reviews in a total of 15 counties in these States and is interviewing farmers and ranchers, including both those who have and have not participated in conservation programs, concerning program effectiveness. GAO plans to discuss the soil erosion problem at these locations, its causes and its effects, and methods by which the existing programs might be made more effective.

Limited-Resource Farmer Loans: More Can Be Done To Achieve Program Goals and Reduce Costs

(CED-81-144, Aug. 31, 1981)

Background: The Farmers Home Administration (FmHA) makes low-interest rate (subsidized) loans to limited-resource farmers to enable them to increase their farm production, income, and living standards. Limited-resource farmers include new beginning farmers, disadvantaged farmers, and farmers making changes in their operations who lack the income, credit, or resources necessary to succeed in farming. Since program inception in 1978, FmHA has loaned more than a billion dollars to limited-resource farmers at interest rates that were 5 to 6 percentage points below the rate charged on FmHA's regular farmer loans.

Findings/Conclusions: FmHA has not provided an adequate level of management assistance to limited-resource borrowers. As a result, limited-resource borrowers will have a harder time succeeding in farming and the program's goal of increasing these borrowers' production, income, and living standards could be impaired. FmHA needs to provide better program guidance to help ensure that needed management assistance is provided. But this alone will not solve the problem as FmHA staffing has not been adequate to provide the level of assistance needed. Despite its staffing problems, FmHA's field offices, although encouraged to do so, had not made effective use of other USDA agencies to provide the needed management assistance. Neither FmHA headquarters nor the two FmHA State offices GAO visited had developed formal working agreements with other USDA agencies to assist limited-resource farm borrowers.

Also, a good internal control system is needed to ensure that interest subsidies, which can be substantial, go only to eligible borrowers. FmHA has made limited-resource loans to borrowers who appeared to be ineligible in that they could afford to pay the regular FmHA interest rates. In addition, loan files were not always fully documented to support the loans. To correct this problem, FmHA needs to ensure to the extent possible that the individual responsible for loan approval is not the same individual responsible for processing and documenting the loan. Such a separation in duties would not only strengthen internal controls, but provide a useful check to ensure compliance with FmHA requirements.

Unlike its subsidized housing program, no provisions exist for recapturing Federal subsidies from the appreciation realized on farm real estate acquired with limited-resource farm ownership loans. FmHA estimates that it can eventually recapture as much as 73 percent of its housing subsidies. Because farm real estate values have more than tripled in the past decade, it may also be possible to recapture interest subsidies in limited-resource farm ownership loans, but legislation will be needed to permit this.

Recommendations: FmHA should strengthen program guidance and establish working agreements with other USDA agencies to provide more management assistance to limited-resource borrowers. FmHA also should strengthen its internal controls to separate the loan approval process from loan processing. And to reduce interest subsidy cost, FmHA should seek legislation to permit it to recapture subsidies on limited-resource farm ownership loans.

Agency actions: In its November 18, 1981, statement on actions taken on GAO's report, USDA stated that it began a project to coordinate USDA and other public and private resources to assist part-time and beginning farmers, including those with limited resources, to become successful full-time operators. This project was to be initiated early in fiscal year 1982 in 81 pilot counties and expanded to all counties in fiscal year 1983. Also, it stated that improvements in FmHA's supervision of limited-resource farmers were expected as FmHA's loan-making activities are reduced without proportional cuts in personnel. In addition, the Department stated that it planned to strengthen program guidance consistent with GAO's recommendations. These actions are scheduled to be completed by June 1982.

In response to the need for better internal controls, USDA stated that FmHA would revise its Operating and Farm Ownership procedures by May 1982 to require county committees to (1) review all limited-resource applications, including farm plans and (2) certify the eligibility of applicant's for a limited-resource loan as well as the county supervisor's recommendation to increase or continue a borrower's limited-resource interest rate.

As to recapturing subsidies on limited-resource farm ownership loans, USDA stated that the return to the Government from recapture could be much less than implied by GAO's report. It stated that farm equities realized from increased farm real estate values have been substantially reduced in recent years due to increased borrowing against such equities. However, it stated that it would study GAO's proposal further to determine whether it could be administered in a cost and program effective manner. It expected to complete this study by the end of fiscal year 1982.

In all, USDA's planned actions are responsive to GAO's recommendations.

The Congress Should Control Federal Credit Programs To Promote Economic Stabilization

(PAD-82-22, Oct. 21, 1981)

Background: The rapid growth of Federal credit assistance programs over the last 10 years has led both the Congress and the Administration to propose credit budgets that would place annual ceilings on the level of direct and guaranteed loans administered by the Federal Government. More stringent standards for choosing, designing, and administering these programs have also been called for. These proposals represent efforts to reduce the growth rate of Federal credit programs. GAO supports this goal; however, explicit recognition should also be given to the aggregate effects of these programs on the economy. Consistency with goals of fiscal and monetary policy should also be considered.

Findings/Conclusions: GAO analyzed the relationship between the annual level of Federal credit assistance loans and indicators of economic performance, fiscal policy, and monetary policy. This analysis showed that credit assistance loan flows between 1960 and 1979 generally moved in the same direction as movements in the business cycle, and, therefore, contributed little to economic stability. GAO's analysis also showed that Federal credit flows were not consistent with fiscal and monetary policy during this period.

For credit assistance programs to contribute to economic stability, their aggregate level should fluctuate counter to the business cycle. Further, benefits should go to those who value them most highly, regardless of the stage of the business cycle. These two principles imply that the point of control for credit assistance loan flows should be the amount of subsidy extended by the loan, not the level of program activity. The amount of subsidy from the credit assistance program could be varied to curb demand for direct and guaranteed loans during periods of rapid economic growth and to stimulate demand during less buoyant periods.

Matters for consideration by the Congress: Because Federal credit assistance programs have grown to exceed $70 billion in current loan flows per year and because these programs have had a poor economic stabilization record over the past two decades, the Congress should consider:

--Adding to its present efforts to control Federal credit assistance flows a mechanism for controlling Federal loan programs that will support Federal economic stabilization goals.

--Using as the point of control the amount of the subsidy, not ceilings on levels of loan activity. Targets on various credit program loan flows and aggregate loan flows should be established but only for the purpose of monitoring results.

--Surveying Federal agencies to obtain needed information on the relationship between program levels and the amount of subsidy.

--Monitoring the results of implementing the subsidy control mechanism and requiring periodic reports from the Secretary of the Treasury, the Chairman of the Board of Governors of the Federal Reserve System, and the Office of Management and Budget on the success of the operation of the control mechanism, taking into account current economic activity, conditions in financial markets, and fiscal and monetary policy.

Evaluation of Farmers Home Administration Efforts To Help Farmers Repay Their Loans

(ongoing)

This study primarily concerns whether FmHA is using all the resources at its disposal to help farmers experiencing financial difficulties to overcome their loan repayment problems. FmHA has loaned farmers more than $48 billion since 1935 to purchase and/or operate their farms; about half of this amount is still outstanding. As of September 30, 1981, about $1.4 billion, or 67,000 of the 404,000 FmHA farm ownership, operating, emergency, and economic emergency loans outstanding were delinquent.

GAO's study is in the very early stages and, therefore, no conclusions can be drawn as yet. The study objectives are to:

--Identify the practices and resources available to FmHA to help farmers repay their loans. For example, use of loan deferment, refinancing, or rescheduling practices.

--Identify and evaluate the reasonableness of the criteria used to identify farmers that merit special loan repayment assistance.

--Evaluate whether the practices and resources available to FmHA are sufficient and adequate to help farmers that merit special assistance.

--Determine whether FmHA's practices and related criteria are uniformly applied by its more than 2,200 county and district offices.

The five States in which FmHA borrowers (farmers) appear to have the most difficulty in repaying their loans are Alabama, Georgia, Mississippi, Tennessee, and Texas. These States account for about 33 percent ($79 million) of the $238 million of loans written off through fiscal year 1981 and have the highest loan delinquency rates in the Nation--up to a combined 37 percent for the four major types of farmer loans (farm ownership, operating, emergency, and economic emergency). GAO's study will cover some if not all of these States.

Opportunities for Reducing Costs in Farmers Home Administration Programs

(ongoing)

In fiscal year 1981, FmHA obligated about $12 billion for insured (direct) loans. About half of these loans were made at interest rates based on the Government's cost of borrowing while the remainder were set at lower rates to provide an interest subsidy. But even some subsidized loan programs have interest rates that are pegged directly to the Government's cost of borrowing.

FmHA finances its loan program through three revolving funds, from borrowings from the Federal Financing Bank (Bank) through the sale of Certificates of Beneficial Ownership in FmHA loans, and borrowings directly from the Treasury. The Bank in turn obtains its funds directly from the Treasury. In fiscal year 1981, FmHA borrowed over $12.8 billion from the Bank at interest rates based on the Government's cost of borrowing plus one-eighth of 1 percent to cover the Bank's administrative cost.

The objectives of this review are to

--evaluate whether the interest rates FmHA pays on its borrowings fully reflect the rates and terms the Treasury pays on its borrowings to preclude over- or under-statements in FmHA's subsidy costs,

--evaluate whether variable interest rates are needed for FmHA's nonsubsidized loans to more fully recover the Government's cost of financing these loans,

--determine whether the maturity period FmHA uses to set loan interest rates accurately reflects the actual maturity period of FmHA's loans,

--evaluate the economic feasibility of eliminating the Secretary's discretionary authority in setting loan interest rates to allow for more timely revisions in loan interest rates, and

--determine whether the bond index FmHA uses to set interest rates on community type loans adequately reflects the type bonds communities generally use to finance community projects and the long-term nature of FmHA's loans.

Policy Consistency of Small Business Administration, Economic Development Agency, and Farmers Home Administration Business Development Assistance Programs

(ongoing)

While private banks must comply with Federal banking law, which regulates such basic credit policy decisions as the size of loans which may be made to any one individual, the Congress has not issued a formal policy statement to guide the design and administration of Federal loan guarantee and other credit assistance programs. Many reports, some dating back to 1963 and some as recent as 1981, have cited the resultant inconsistency in basic Federal credit policies and the need for more consistency. To understand the specific kinds of credit policy inconsistency which occur, and their causes and effects, GAO is conducting a detailed comparison of three loan guarantee programs in the Economic Development Agency, Small Business Administration, and Farmers Home Administration and is surveying various policies in an additional 86 programs having guarantee authority from 1977 to 1980.

While there are many credit policies basic to the efficient, effective operation of Federal loan guarantee programs, GAO plans to concentrate on four: (1) policies related to the charging of guarantee fees, (2) policies related to risk sharing between the Federal Government and private lenders, (3) policies related to the control of interest rates, and (4) policies related to Federal guarantees of tax-exempt obligations.

At the conclusion of its review, GAO plans to comment on the need for greater credit policy consistency in loan guarantee programs, and potential mechanisms which might bring about such consistency.

Review of the Farm Credit Act Amendments of 1980

(ongoing)

On December 24, 1980, the Congress passed the Farm Credit Act Amendments of 1980 to permit Farm Credit System institutions to improve their services to borrowers. The amendments require GAO to conduct an evaluation of the programs and activities authorized under the amendments and make an interim report to the Congress no later than December 31, 1982, and a final report to the Congress no later than December 31, 1984. This review is intended to result in GAO's interim report on the amendments.

The Farm Credit System is the single largest source of credit to the farm sector and provided over $70 billion to farmers, ranchers, producers, and harvesters of aquatic products, and to their cooperatives during 1981. The System is made up of three classes of banks, each of which is located in 12 farm credit districts. Federal Land Banks make 5 to 40 year farm mortgage and equipment loans through approximately 490 local Federal Land Bank Associations. The 12 Federal Intermediate Credit Banks provide short- and intermediate-term loan funds to over 420 local Production Credit Associations and to other financial institutions serving agricultural producers. Banks for Cooperatives make loans to farmer cooperatives. In addition there is a Central Bank for Cooperatives which participates with district Banks for Cooperatives on larger loans. The banks and associations of the System are organized as cooperatives and are entirely borrower owned. Federal funds are not used, and the System raises money in the national and international money markets by selling securities. Over $90 billion in securities were sold in 1981. The System is supervised and regulated by the Farm Credit Administration, an independent Federal agency. The Farm Credit Administration is funded by the System.

To date the Farm Credit Administration has finalized regulations to implement many of the key amendments, and the district banks and associations are in various stages of developing policies and procedures to implement the regulations. Few loans have been made under the authority provided by the 1980 amendments, and therefore the thrust of GAO's interim report will primarily cover planning for and development of implementing regulations, procedures, and programs to accomplish the Farm Credit System's new and expanded authority.

The GAO review will concentrate primarily on three areas of the numerous new and expanded authorities provided by the amendments. One area concerns the authority permitting the Banks for Cooperatives to finance certain export activities and to provide financial services to cooperatives engaged in international trade. GAO will examine the adequacy of the steps taken to implement the amendments dealing with international financing.

Another area included in the GAO review involves those amendments which are intended to enhance the opportunity for other financial institutions to use the financial services of the Federal Intermediate Credit Banks. GAO will examine the steps taken to assure that other financial institutions have reasonable access to the discount privileges of the Federal Intermediate Credit Banks.

Another provision of the 1980 amendments included in the GAO review directs that the Federal Land Bank Associations and the Production Credit Associations prepare special lending programs for young, beginning, and small farmers and ranchers. GAO will examine the programs developed to help this class of farmers and ranchers.

Food for Development Program Constrained by Unresolved Management and Policy Questions

(ID-81-32, June 23, 1981)

Background: The food for development program was established under Public Law 480, title III, in 1977 to provide developing countries an incentive to take greater self-help measures in return for multiyear food aid commitments and debt forgiveness. About $30 billion in U.S. commodities have been provided to friendly countries since 1954 under Public Law 480, the principal vehicle for providing food to needy countries.

The food for development program, even with repayment forgiveness, has had limited acceptance as a means of better linking U.S.

food aid to recipient country development efforts. Only six agreements were signed in 3 years. Other food aid programs offer highly concessional assistance (grants or loans with easy terms) for less development effort.

Findings/Conclusions: The program's record is not likely to improve until basic management and policy questions are resolved and its incentives are coordinated with those of other food aid programs.

The program is administered on an interagency basis with participation by USDA, the International Development Cooperation Agency, the Agency for International Development (AID), the Office of Management and Budget, and the Departments of State and the Treasury. No one agency has lead responsibility, and decisions are reached by consensus. There is a need to fix responsibility and authority for the design, review, approval, and evaluation of the multi-year development plans with one lead agency, preferably AID. This lead agency could draw upon USDA and other outside technical expertise in dealing with development planning and implementation.

Demanding, complex, multiple program requirements have caused some countries to avoid the program. They have the choice of food aid within the title III framework with its stringent requirements or of the already highly concessional food aid under title I with less demanding requirements. U.S. policymakers face the dilemma of persuading recipient governments to take difficult self-help measures in return for U.S. food aid, which they may perceive that they will get anyway. Agencies also face the problem of getting maximum impact of food aid on development under title III with its stringent requirements in an environment of highly concessional alternative food aid. A means for dealing with this dilemma is critical to expanded use of food for development, regardless of title. A policy framework for linking the concessionality of food assistance to self-help measures needs to be established. Such a policy, if it is to be meaningful, will require close cooperation among the concerned departments and agencies and will require appropriate consultation with congressional committees.

Recommendations: GAO reaffirmed its prior recommendations that AID be given final responsibility--not subject to veto by other agencies but in consultation with other agencies--to design, review, and approve multi-year development plans under title III proposals and to monitor and evaluate program implementation. The Administrator of AID, drawing upon USDA and other technical expertise, should (1) develop specific country food and agriculture analysis to serve as a foundation for program planning, (2) prepare detailed guidance to U.S. overseas missions for preparation of specific title III proposals, and (3) provide needed technical assistance to U.S. missions and to recipient countries in preparing proposals and in evaluating progress.

The Secretary of Agriculture, in USDA's role as Chair of the Development Coordination Committee, Subcommittee on Food Aid, should establish or refine as necessary, standards (1) tailoring the terms and self-help measures of food aid to the purposes for which such assistance is provided and to the needs of recipient countries and (2) basing the concessionality of future assistance on the degree of recipient countries' self-help performance.

Agency comments/actions: AID advised GAO that it believes it imperative that clear authority and accountability for the development dimensions of Public Law 480 programs be assigned to AID in its role as the development agency. AID said that it has upgraded its office responsible for Public Law 480 matters, has instructed the Missions to promote greater development impact of Public Law 480 programs, and is studying its analytical needs. The House Committee on Foreign Affairs, in its report on the

International Development Cooperation Act of 1981, reflects the view that further information is needed concerning the potential for strengthening the developmental effectiveness of the Public Law 480 program. The report requested a study including the potential for using terms and interest rates on title I loans as incentives for developmental use of food aid and the relationship between Public Law 480 loan terms and other U.S. loans. AID said that the results of this study would assist in acting on GAO recommendations.

USDA maintains its opposition to assigning AID lead agency responsibility. USDA initiated a study of self-help requirements and financial terms of concessional food aid programs.

Lessons To Be Learned from Offsetting the Impact of the Soviet Grain Sales Suspension

(CED-81-110, July 27, 1981)

Background: On January 4, 1980, the President announced that, for foreign policy and national security reasons, the Federal Government was suspending the shipment of about 18 million metric tons of agricultural commodities to the Soviet Union. The President directed USDA to take actions to offset the suspension's impact on farmers. These offsetting actions, most of which were concerned with stabilizing market prices, included removing the suspended grain from the market by increasing the wheat and corn price-support loan rates, adjusting the farmer-owned reserve program, purchasing grain directly from farmers and county grain elevators, and purchasing exporters' undeliverable grain contracts with the Soviet Union.

Findings/Conclusions: Because of the short time between the decision to suspend shipments and the suspension's announcement, USDA was not able to thoroughly analyze the suspension's potential impact and develop a comprehensive plan of offsetting actions. The lack of adequate planning caused USDA to: (1) erroneously anticipate that the farmer-owned reserve would efficiently remove the undeliverable grain, (2) purchase the exporters' Soviet contracts valued at about $2.4 billion with little documentation that such purchase was necessary, and (3) inefficiently implement the offsetting actions. Since any future suspension of the export of agricultural commodities may have a severe effect on the grain production and marketing industries, it is important that the potential effects of the various actions that could be taken to offset the potential impact of any further suspensions be identified and analyzed. USDA's purchase and resale of the exporters' Soviet contracts and its purchase of corn and wheat from farmers were implemented in a manner which led to Federal losses or increased Federal costs. A Government monitoring program set up to identify illegal shipments to the Soviet Union was reasonably successful in identifying and discouraging direct shipments from U.S. ports to the Soviet Union. However, it was not feasible to closely monitor for possible unauthorized transshipments. The Soviet Union was able to substantially offset the suspension's impact by increasing imports from other countries and drawing down its reserves.

Recommendations: The Secretary of Agriculture should develop and keep current a contingency plan that would include: (1) an assessment of whether existing farm programs are flexible enough to efficiently and effectively offset the impact of a grain sales suspension on farmers, (2) an evaluation of the types and availability of data needed to determine on short notice the extent and severity of a suspension's impact on farmers, grain elevators, grain transporters, and exporters, and (3) an analysis of the extent, if any, to which the impact on each of the agricultural sectors should be offset. The Secretary of Agriculture should, after assessing existing farm programs, develop and submit to the

Congress any legislative recommendations for modifying existing programs or instituting new programs that the Secretary finds are necessary in developing a contingency plan. If the Commodity Credit Corporation again considers purchasing exporters' contracts to offset the impact of any future suspensions, the Secretary should direct it to: (1) prepare an economic justification for each commodity involved in the suspension to determine if such purchase is necessary, and (2) estimate any suspension-related benefits and detrimental effects to the exporters and use both estimates in determining the extent of Federal assistance needed. If the Commodity Credit Corporation again considers open-market purchases as an offsetting action, the Secretary of Agriculture should direct it to purchase only the types and grades of commodities suspended from shipment and to make such purchases at prices within a reasonable amount of the existing market price.

Agency actions: According to USDA, the Administration is strongly opposed to the use of export controls in a manner which unfairly burdens any sector of the American economy. It added that this Administration did not invoke the partial grains embargo; it revoked it. In commenting on the GAO recommendation to develop a contingency plan, USDA said that while it may be useful to discuss the possible adverse impact of an overall U.S. trade suspension on the agricultural community, it is extremely difficult to quantify the effects of such embargoes. The Agriculture and Food Act of 1981 requires that USDA comply with all of GAO's recommendations.

An Economic Analysis of the Market Organization and Pricing Efficiency of the U.S. Grain Export System

(ongoing)

The U.S. grain export system is the vehicle through which large quantities of grain valued in the billions of dollars are moved from American farmlands to customers overseas. The system also is responsible for transforming information into grain prices which are fair to producers, consumers, and traders alike. Because a substantial share of U.S. grain exports are traded by a small number of large multinational corporations, skepticism concerning the system has abounded in recent years. The system, labeled as oligopolistic, has led some observers to conclude that the large exporters manipulate grain markets based on inside information to the detriment of producers and consumers alike.

GAO's study examines the (1) physical movement of grain and the flow of information through the export system, (2) market structure of the system, (3) market institutions through which grain trading takes place, and (4) the role of the Federal Government regarding the system. It describes how grain sales are made and various risks grain exporters face and assesses the efficiency with which the system transforms information about grain sales into grain prices.

Followup Survey of PL 480 Title I Program

(ongoing)

At the request of a congressional subcommittee, GAO recently reviewed the extent of supplier competition for U.S.-Government-financed grain sales to developing countries under the Public Law 480 title I program. GAO's report 1/ to the subcommittee noted that U.S. grain suppliers were experiencing a number of problems with certain program procedures and requirements that were acting

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1/Competition Among Suppliers in the P.L. 480 Concessional Sales Program (ID-81-6, Dec. 19, 1980).

as barriers to greater supplier competition, particularly by smaller firms.

Among the types of problems experienced were unreasonable and varying performance bond requirements, which increased suppliers' costs and risks significantly, and payment delays and associated storage and carrying costs experienced by suppliers who sell their commodities on a f.a.s. (free alongside ship) basis. Suppliers who sell f.a.s. are not reimbursed until the commodities have been physically loaded aboard ship, even though vessels chartered by the buying country are often late in arriving for loading.

GAO's report also noted that there were a number of options and opportunities for USDA to lower the prices being paid for the commodities. For example, GAO noted cases where nonstandard or unusual commodity specifications and varying or tight shipping lead times desired by buyers limited the number of firms that were able or willing to bid on these sales and resulted in USDA paying premiums for these requirements. A substantial proportion of the sales were held in late summer, when some commodities tend to be in shorter supply. GAO also noted that large individual sales of 100,000 tons or more tended to result in relatively wide price spreads being paid by USDA, particularly for wheat flour and rice, and in some cases not enough quantities were offered by the industry at reasonable prices.

The GAO report contained six recommendations to the Secretary of Agriculture designed to reduce or eliminate the above problems. In their comments on the GAO report, USDA indicated that, with the exception of part of one recommendation, they agreed with the recommendations and planned to implement them. In subsequent discussions, USDA indicated that while they have made a few selected changes in response to the report, as of early February 1982 not much progress had been made in implementing GAO's recommendations.

The purpose of this survey is to: (1) determine and assess what specific changes USDA has made or has attempted to make in response to GAO's report recommendations, and their impact, and (2) examine, in greater detail, options and opportunities for reducing the annual costs of the title I program to the U.S. taxpayer.

The Department of Agriculture Can Minimize the Risk of Potential Crop Failures

(CED-81-75, Apr. 10, 1981)

Background: All major U.S. crops are vulnerable to damage from disease, insects, and adverse weather conditions. Much of this vulnerability is due to a lack of genetic variability within a particular crop. Tha National Plant Germplasm System, a cooperative mixture of State, Federal, and private programs, was established to help protect against vulnerability and help improve plant varieties.

Findings/Conclusions: The National Plant Germplasm System lacks a sense of direction and purpose and does not have effective management. The problems experienced by the system in the collection, storage, and maintenance areas included: (1) the lack of systematic collection of new germplasm, (2) inadequate storage facilities, (3) incomplete and sporadic evalution of the distinguishing characteristics of stored germplasm, and (4) possible permanent loss of some genetic stock which is not regularly replenished by periodic growing out of seed. Critical policy questions have not been addressed; indications are that mechanisms are inadequate; and comprehensive plans have not been made to cope with present and future problems.

Recommendations: The Secretary of Agriculture should have as the system's first priority, to develop a comprehensive, long-range plan. Such a plan is essential regardless of management structure. This plan should address the following topics:

--Assessment of the genetic vulnerability of major crops by determining what planting or use trends might threaten or make these crops more vulnerable; provision for monitoring the use of inputs, such as pesticides and fertilizers, to be aware of their potential impact on vulnerability; provision for keeping closer watch on what varieties of seed are being planted; and the research efforts of private seed companies.

--Determination of the gaps in current germplasm collections in terms of availability and evaluation, and the development of objectives for collecting or otherwise acquiring needed germplasm.

--Assurance that stored germplasm is available by making sure that the germplasm stock is evaluated; an information system is in place so that the information can be disseminated; and when necessary, prebreeding is done so that desirable genetic characteristics from otherwise undesirable types are transferred into a more suitable genetic background.

USDA should centralize authority over the Federal portion of the National Plant Germplasm System with that central authority having responsibility for all USDA-funded germplasm activities. GAO did not recommend that program activities be collapsed, but that management authority for planning, budget, and personnel be centralized, possibly within the Science and Education Administration. Until such action is taken, the major issues of genetic vulnerability and variability cannot be effectively addressed.

Agency actions: USDA has developed and issued a comprehensive plan for protection and enhancement of plant genetic resources. USDA has not centralized management of the Federal portion of the National Plant Germplasm System, but it has taken positive steps to increase management attention to the system by raising the reporting level of the system coordinator and designating plant germplasm as a high priority thrust area in the fiscal year 1983 budget.

Long-Range Planning Can Improve the Efficiency of Agricultural Research and Development

(CED-81-141, July 24, 1981)

Background: Agricultural production will be increasingly hard pressed to meet future food needs without adequate long-range planning. Such planning should be done by USDA in conjunction with the land grant colleges and State agricultural extension services.

Findings/Conclusions: GAO found that the U.S. agricultural research and development system does not perform national long-range planning which would meet generally accepted definitions of such planning. The key participants in the system engage in long-range planning only to a very limited extent. No rationale for long-range planning has been developed, and past planning efforts have not resulted in long-range plans. Currently some planning, but not long-range planning, is occurring. These efforts deal primarily with short-term or operational planning. Many of the parties in the agricultural research and development system support the concept of national long-range planning, but a number of factors inhibit such planning. The States and USDA work together, coordinate research, and exchange extensive amounts of information; but these efforts are independently managed and planned. The authority and management for individual research projects is split among Federal, State, local, and private authorities. This fact, frequent changes in departmental leadership, and limited executive interest and guidance make long-range planning extremely difficult.

Recommendations: The Secretary of Agriculture should develop an agencywide long-range plan for agriculture research and development. The Congress should require the Secretary, in conjunction with the States, to develop a food needs assessment and determine the research needed to help meet future food production needs.

Agency/Congressional actions: USDA has developed improved procedures for research planning but has chosen not to develop a specific long-range plan for agricultural research. The Agriculture and Food Act of 1981 (Public Law 97-98) requires that a food needs assessment be submitted by the Secretary of Agriculture by January 1, 1984.

Cooperative Extension Service's Mission and Federal Role Need Congressional Clarification

(CED-81-119, Aug. 21, 1981)

Background: The Cooperative Extension Service--which is made up of the Federal Extension Service in USDA, the State Extension Service located within the land-grant colleges and universities, and local offices in virtually every county--is the largest education system of its kind in the world. It is active in rural, suburban, and urban communities and, in addition to agricultural and home economics programs, offers programs in social and economic problems and cultural, recreational, and leisuretime activities. The Cooperative Extension Service was established in 1914 primarily to provide farmers with information from agricultural research and to encourage them to adopt improved farming methods. Recently, its programs have expanded to include instruction in arts and crafts, recreation, creative and performing arts, and mental and emotional health. GAO reviewed the Cooperative Extension Service to determine whether its programs were meeting their basic missions.

Findings/Conclusions: As more programs vie for Cooperative Extension Service resources, disagreements have occurred over what its mission should be. Some groups feel that it is ignoring their needs; other say it is trying to be all things to all people.

GAO stated that, because the demands for Cooperative Extension Service's programs are great and its resources are limited, its available resources need to be used as efficiently as possible. GAO also stated that USDA should assume a more active leadership role in the Cooperative Extension Service program development. GAO also concluded that improved performance and impact measurement is needed to determine whether extension programs are effective, and that USDA is the natural place within the organization from which to provide leadership and direction in evaluation.

Recommendations: The appropriate congressional committees should examine the Cooperative Extension Service's mission. As part of this process, the committees could direct the Secretary of Agriculture to prepare, in cooperation with the State extension services, an updated statement of the Cooperative Extension Service's mission. In addition, the committees could also hold oversight hearings on the Cooperative Extension Service to review current extension programming and to consider and focus on the mission that the committees want carried out. The hearings could provide the basis to develop legislation, if necessary, to more clearly define the Cooperative Extension Service's mission. The committees should also consider the role that they want USDA to play in providing extension program leadership and guidance. The

Secretary of Agriculture should become more involved with the States in the total extension program development process, and assume leadership for developing and implementing a uniform accountability and evaluation system for the Cooperative Extension Service.

Agency/Congressional actions: USDA and the States generally agreed with GAO's recommendation concerning the need to clarify the Cooperative Extension Service's mission. To this end the Secretary of Agriculture and the State extension services have recently established a Joint Committee on the Future of Cooperative Extension. The Joint Committee is charged with developing recommendations on the appropriate mission, scope, priorities, and future direction for the Cooperative Extension Service. Concerning the issue of the appropriate Federal role in extension, USDA and the States generally agreed that although the Federal office should provide national program leadership, this should be in the form of guidance and not Federal program direction. USDA said that it would also develop a report clarifying how Federal staff does and should work with States to develop Cooperative Extension Service programs. USDA agreed with GAO's recommendation that the Secretary of Agriculture assume leadership for developing and implementing a uniform accountability and evaluation system for the Cooperative Extension Service. To help provide this capability, an evaluation and accountability program unit has been established within the Federal Extension Service through an internal reorganization. The Subcommittee on Department Operations, Research, and Foreign Agriculture, House Committee on Agriculture, has undertaken an examination of the Cooperative Extension Service including holding oversight hearings on the Service's mission and Federal role. GAO testified at the subcommittee's oversight hearings on February 17, 1982.

Better Collection and Maintenance Procedures Needed To Help Protect Agriculture's Germplasm Resources

(CED-82-7, Dec. 4, 1981)

Background: The United States has no native germplasm (plant stocks) for major food crops and depends on germplasm collections to maintain a supply of germplasm. To minimize the risk of major losses resulting from plant diseases, insects, and poor weather and to provide a source of germplasm for crop improvement, it is essential that available germplasm is collected and properly stored and maintained. Without a complete collection, germplasm necessary for plant breeding may not be available. Without proper storage and maintenance, the genetic viability (ability to reproduce) of the stored germplasm will diminish and eventually be lost.

Findings/Conclusions: Insufficient management attention by USDA to germplasm collection, storage, and maintenance has endangered germplasm preservation within the United States. These deficiencies include:

--Serious gaps in the USDA's program for backup storage of germplasm that could lead to permanent loss of genetic stocks.

--Gaps, due to missing or depleted germplasm, in the small grains collection, which represents the United States' most economically important crops.

--Storage conditions which are not adequate to maintain genetic viability of the germplasm collected by most curators.

--The lack of monitoring equipment for many germplasm collections to determine genetic viability.

--Inadequate replenishment programs for some of the germplasm collections.

Although USDA has given increased emphasis to germplasm management during 1981, serious deficiencies within the system must be overcome in order to have a viable germplasm resource.

Recommendations: In view of the priority the USDA has given to the program in fiscal year 1982, the Secretary of Agriculture should address the operational problems of the program by taking the following actions:

--Initiate actions to assure that germplasm in the United States is stored adequately.

--Initiate projects to assure backup storage of germplasm.

--Take an accurate inventory of the small grains collection.

--Identify which curators need germplasm monitoring equipment and arrange for periodic testing.

--Determine the extent curators are behind in their germplasm replenishment programs.

Agency actions: USDA generally agreed with GAO's conclusions and recommendations and began corrective action by reviewing and assessing storage conditions and replenishment programs at each germplasm collection site, implementing a computer-assisted information network for its backup storage system, inventorying the small grains collection, and centralizing the monitoring of germplasm collections.

Adequacy of Federal Nutrition Research Planning

(ongoing)

The Food and Agriculture Act of 1977 was a major milestone in nutrition research planning because it provided a new Federal initiative and expansion in human nutrition research. The act emphasizes the importance of research planning and coordination; identifying needs; and establishing priorities. The primary Federal nutrition research agencies--the Departments of Agriculture and Health and Human Services along with the Office of Science and Technology Policy--made major strides in nutrition which have an impact on promoting and protecting the general health and welfare of the American people.

The objective of this assignment is to assess the effectiveness of the Federal nutrition research and coordination activities. GAO is addressing what Federal agencies have done in planning a strategy to assure that high priority research is done; what amount of resources have been allocated to nutrition research; and what coordination and cooperation mechanisms exist within and among the Federal nutrition community.

Review of the Need for and Utilization of Federal Agricultural Research Facilities

(ongoing)

In fiscal year 1982, USDA will spend about $680 million on agricultural research. Of this amount, $450 million will go to support the activities taking place in approximately 152 USDA-owned or leased research facilities. The Congress, at least since 1974, has expressed concern about the growth in the number of such facilities and in the fact that many facilities already existing are underutilized.

GAO's review is primarily concerned with identifying underutilized USDA-owned or leased research facilities and exploring ways through which such facilities can be better utilized. In looking at the issue of utilization, GAO is matching current scientific staffing levels with design capacities and also examining the kinds of research being done. In looking at how to better utilize research facilities, GAO is considering the following options: (1) consolidating laboratories, (2) utilizing excess space with State scientists or personnel from other Federal agencies, and (3) increasing scientific staffing levels.

Survey of USDA/CSRS Management of State Conducted, Federally Funded Research

(ongoing)

In fiscal year 1982, USDA--through its Cooperative State Research Service (CSRS)--will turn over to the States approximately $230 million for agricultural research and development. CSRS administers this research funding with about 130 employees and an annual budget of around $8.5 million.

GAO's interest in this area centers on determining the benefits of CSRS assistance in coordinating, planning, evaluating, and supervising federally funded research which is done by the States. Questions arise on the role of CSRS because (1) Federal funds administered by CSRS represent only a small part of the total agricultural research funding used by the States and (2) States have established their own procedures to administer, coordinate, plan, evaluate, and supervise their research. Because of the fungibility of research funds and the high degree of non-Federal funding, CSRS has little "real" control over State-performed research. GAO is examining whether a number of CSRS' administrative functions could be eliminated or reduced without negatively affecting the research process. If so, savings in CSRS administrative costs would be realized as would administrative savings to State research institutions.

Department of Agriculture Needs Leadership in Managing Its Information Resources

(CED-81-116, June 19, 1981)

Background: USDA has responsibility for several broad missions encompassing over 300 separate programs that are managed by USDA agencies and offices. These programs include home loans to farmers, rural development, commodity price support loans, conservation, nutrition, food assistance, agricultural research and education, and national forest management. USDA's program effectiveness largely depends on computers, telecommunications, and related information resources.

To keep up with their expanding responsibilities, USDA managers, scientists, analysts, and other personnel are relying more on ADP and telecommunications technology. Budget data shows that ADP and telecommunications obligations have almost doubled in USDA since 1977 when obligations were about $81.5 million. Estimated obligations for fiscal year 1981 are $158 million.

GAO visited four USDA computer centers, its central ADP management office, and selected agencies.

Findings/Conclusions: Although many problems have been identified in the USDA management and use of information resources, little has been done to solve these problems. The current ADP office does not have the required authority to ensure effective and efficient management and use of information resources. If effectively implemented, the Paperwork Reduction Act should materially improve USDA information resources management (IRM). Development, conversion, and maintenance of applications software is ineffective because generally accepted management practices are not followed. Frequently, agencies do not prepare requirements analyses, cost/benefit studies, or comprehensive plans. Users of four USDA computer centers are dissatified with availability, accessibility, and response times. Lack of a comprehensive planning process has resulted in inefficient and ineffective use of information resources that has contributed to huge cost overruns for six large software projects.

Recommendations: The Secretary of Agriculture should establish a separate, central IRM office headed by a senior official at the assistant secretary or equivalent level; direct that the senior official, in carrying out information activities, develop and implement a USDA-wide IRM program; include as part of the IRM office such IRM-related subcomponents as deemed necessary for the senior official to carry out designated responsibilities; establish a top-level USDA steering committee or similar group of agency representatives to provide the senior official with advice and recommendations on policy and other significant IRM matters; establish, under the direction of the senior official, a management assistance center for computer software and systems development.

Also the Secretary should direct the senior official to (1) establish a computer performance management program, including objectives for user service levels; uniform reporting on performance, capacity, and utilization; and standard operating procedures related to efficient use of computer center resources, (2) require user organizations to provide computer centers with timely and complete workload forecasts for use in the computer performance management program, (3) develop USDA-wide guidelines for a comprehensive IRM planning process, and (4) conduct a postimplementation review to determine whether the National Finance Center (NFC) should continue managing its computer center. The Secretary should also provide the senior official with clear authority over agency software projects. This authority would require agencies to submit to the senior official various documents and data for software projects meeting established dollar thresholds.

Agency action: The Secretary has appointed a single individual who reports to him, to be responsible and accountable for information resource management. The Secretary established an information resource management task force to pull together the necessary resources to accomplish many of the tasks necessary to implement GAO's recommendations. Other actions taken by USDA in response to GAO's report include a centralized review of all proposed ADP equipment, establishing a review team for examining internal controls and security provisions, and establishing a standards program covering acquisition and use of ADP equipment. These and other USDA actions should help correct the problems cited in GAO's report.

Improving Sanitation and Federal Inspection at Slaughter Plants: How To Get Better Results for the Inspection Dollar

(CED-81-118, July 30, 1981)

Background: The Federal Meat Inspection Act and the Poultry Products Inspection Act require that livestock and poultry slaughtered at plants that do business in interstate or foreign commerce be federally inspected. GAO reviewed the administration of the acts by the Food Safety and Inspection Service (FSIS). Certain areas were identified in which FSIS could improve inspection activities and plant managers could better carry out their responsibilities to assure that slaughter plant operations are sanitary and that meat and poultry products are wholesome, unadulterated, and properly marked.

Findings/Conclusions: GAO made unannounced visits to 62 randomly selected meat and poultry slaughter plants in six States to evaluate plant and inspection staff compliance with inspection program requirements. Nearly one-fourth of those plants visited were not in compliance with one or more of the six basic inspection program requirements. The high incidence of unacceptable ratings and the large number of deficiencies found at plants not bad enough to warrant unacceptable ratings show that both plant managers and inspection program staff were not fully meeting their responsibilities. Part of the inadequacy could have been due to a shortage of trained inspectors caused by hiring and budget restrictions. Because of these shortages, certain inspection responsibilities had been neglected, including supervising line inspectors, performing acceptance tests, monitoring plant conditions and operations, and inspecting processing departments.

Recommendations: The Secretary of Agriculture should direct the Administrator, FSIS, to:

--Require stricter enforcement of FSIS' sanitation requirements and have plants maintain better sanitation on their own initiative.

--More effectively monitor inspectors and supervisors as they work to bring slaughter plants into compliance with sanitation requirements.

--Instruct inspectors and supervisors on the need to document all deficiencies found.

--Develop a system of financial disincentives for plant managers who allow less than sanitary conditions to exist. This system could include financial penalties, for which legal authority would be required, or scheduling preoperative inspections late enough so that correcting any problems found would delay slaughter operations.

--Require supervisors, as a one-time effort, to determine and report on compliance with inspection program water system requirements during one of their monthly plant visits.

--Issue more detailed guidelines on requirements for plant water systems.

--Require plant managers to obtain inspector approval of water system repairs and changes that could affect FSIS system requirements.

--Improve monitoring of acceptance testing programs by providing more detailed guidance for selecting random cattle carcass samples and by prescribing security measures over sample cattle carcasses.

--Consider GAO's findings in developing and/or revising carcass acceptance testing programs.

--Instruct inspectors and supervisors to give increased attention to assuring that ante-mortem facilities and equipment are properly maintained and inspectors perform their examinations of products in the prescribed manner.

--Develop a formal program for reinspecting edible meat byproducts. The program should provide a reliable indicator that the sample is representative of the universe and should include specific guidance to inspectors for conducting reinspections and documenting the results.

--Emphasize to supervisors the importance of taking effective actions to bring plants up to acceptable levels of compliance.

--Provide supervisors with improved plant-rating criteria that can be applied uniformly and that specify review findings which require a plant to be rated unacceptable in each rating area and overall.

--Require supervisors to document the results of their required monthly plant reviews.

Agency actions: In its November 6, 1981, statement to congressional committees on actions taken on GAO's report, USDA said that GAO's recommendations come at an opportune time as it seeks better ways to carry out its fundamental public health and food safety missions. The Department set forth a number of actions it has and is taking relating to GAO's recommendations but disagreed with the recommendation to develop a system of financial disincentives for plants not complying with inspection requirements. It said that current legal authorities, including inspection withdrawal, are sufficient to correct sanitation problems. GAO believes that such a system is needed because (1) inspection withdrawals are severe actions which are rarely imposed and (2) present sanctions do not appear to have been especially effective, considering the sanitation problems found in the plants reviewed.

Regulation of Cancer-Causing Food Additives--Time for a Change?

(HRD-82-3, Dec. 11, 1981)

Background: Recent debates over the safety and regulation of saccharin and nitrite have increased public concern about the use of food additives, particularly the possibility that some might cause cancer. About 2,700 food additives and 33 color additives used in food are regulated by the Food and Drug Administration (FDA). These substances are used to preserve, color, flavor, and aid in processing food or in maintaining its nutritional quality. The 1958 Food Additives Amendments to the Federal Food, Drug, and Cosmetic Act provide that no additive shall be deemed to be safe if it is found to induce cancer when ingested by humans or animals or it is found, after tests which are appropriate for the evaluation of the safety of food additives, to induce cancer in humans or animals. This provision is known as the Delaney Clause. The heart of the issue centers of Delaney's "zero-risk" concept that no substance, in any amount, may be intentionally added to food if it has been shown to cause cancer.

Findings/Conclusions: Tests to determine whether food additives cause cancer and statistical models to assess their risk to humans are available, but they have not yet been developed to the point where many experts totally accept their reliability.

GAO conducted 50 interviews with biomedical researchers, industry and consumer group representatives, and former FDA commissioners and general counsels. With the exception of some consumer group representatives, most experts believed that the Delaney Clause should be changed but differed significantly on how to change it. Food safety experts agreed that the principle of the Delaney Clause--not adding cancer-causing food additives to the food supply--is desirable in theory, but most believed that the Clause is impractical and should be changed.

GAO identified 12 public opinion polls conducted over the past 10 years which addressed the question of food safety. These polls showed that the public approves of the general policy of banning cancer-causing food additives. However, the public is opposed to a ban for specific substances like saccharin which have been in use for a number of years and have perceived benefits.

Cancer-causing substances are regulated differently within FDA and among FDA and other Federal agencies because of differences in social, economic, and health considerations. Under the Federal Food, Drug, and Cosmetic Act, not all substances added to food are regulated as food additives. Federal laws that regulate pesticides, environmental contaminants, consumer products, and hazardous substances in the workplace require that the risk from exposure to carcinogens be balanced against one or more of the following factors: health, social, economic, and environmental benefits; costs to the consumer and industry; and technological feasibility.

Matters for consideration by the Congress: Three obvious alternatives for regulating cancer-causing food additives are possible: (1) leave the Delaney Clause unchanged, (2) repeal it, or (3) amend it in some way.

If the clause were deleted from the Food, Drug and Cosmetic Act, both carcinogenic and noncarcinogenic food additives would be regulated under the general safety clause. Thus, a cancer-causing food additive could be used if there was a reasonable certainty that no harm would come from its proposed use.

Under the third alternative, amending the clause, three options could be considered: (1) set an acceptable level of risk, (2) compare risks and benefits, and (3) compare the health risk of using a carcinogen with the health risk of not using it.

GAO believes that the Congress should reexamine whether the Delaney Clause is still appropriate because of (1) advances in the ability of analytical detection methods to identify substances at very low levels, (2) uncertainties about the human risk from low levels of carcinogens, and (3) the inflexibility of the current law.

Agency actions: The Department of Health and Human Services said that it is considering alternative approaches that could be adopted for regulating carcinogens in the food supply and that GAO's report would be useful in formulating a policy.

Recently introduced legislation (S. 1442 and H.R. 5491) to amend the Nation's food safety laws should spark considerable debate in the coming months.

Mineral Data in the Forest Service's Roadless Area Review and Evaluation Is Misleading and Should Be Corrected

(EMD-82-29, Feb. 4, 1982)

Background: Beginning in June 1977, USDA's Forest Service began an extensive public land allocation process that evaluated the wilderness potential of almost 3,000 roadless areas encompassing 62 million acres of the Forest Service inventory in 38 States. The process culminated in January 1979 with publication of the Roadless Area Review and Evaluation (RARE II) report. GAO reviewed the Forest Service's RARE II effort to determine whether mineral potential on lands recommended for wilderness was adequately addressed in the decisionmaking process.

Findings/Conclusions: GAO found that the RARE II report contains several inaccuracies that may be misleading to its users.

Specifically, the report implies a substantially firmer knowledge of mineral presence (or nonpresence) than actually exists:

- --The Forest Service frequently reported that areas had low or no mineral potential when sufficient mineral data was not available to rate an area.
- --Indications of mineral potential were inconsistently applied from one area to another.
- --Mineral data for certain confined areas was considered representative of larger geographic areas, but this was not clearly disclosed in the report.

In addition, the amount of land the Forest Service recommended for wilderness which has unknown potential in combination with high mineral potential is notably high.

The Forest Service did not intend to mislead those who relied on its RARE II report. GAO concluded that the problem resulted from failure to consistently follow coding instructions; lack of uniform mineral rating procedures; and arbitrary time limits which allowed less than 11 months to evaluate the mineral potential on 62 million acres of forest land.

Recommendations: To help the Congress in its current deliberations of pending wilderness legislation, GAO recommended that the Secretary of Agriculture direct the Forest Service to review mineral data set forth in the January 1979 RARE II report, determine the extent to which mineral data is erroneously coded, and provide a corrected report to the Congress. GAO further recommended that relevant congressional committees hold off decisions on wilderness legislation until the corrected data is submitted.

Agency action: The report was released too recently for the agency to formally respond. However, in their comments on the report, the Forest Service agreed with GAO findings but thought it more effective simply to clarify the coding errors and submit up-to-date mineral information as necessary to the Congress. GAO agrees that the Forest Service should work closely with the Congress to resolve the inaccuracies but also maintains its view that the Forest Service should prepare a corrected report.

Audit of the Financial Statements of the Commodity Credit Corporation

(ongoing)

GAO is required by the Government Corporation Control Act to audit the financial statements of the Commodity Credit Corporation (CCC) and report to the Congress. This audit is for the purpose of expressing an opinion on the financial statements of CCC for the year ended September 30, 1980. GAO's last report to the Congress on CCC's financial statements was for fiscal year 1977.

CCC is a long-established, wholly owned Government corporation. Its objectives are to provide loans to farm producers nationwide, thus guaranteeing and stabilizing farm prices. The Corporation also provides payments to farm producers under various disaster programs, administers export sales and domestic farm programs, and carries out much of the Public Law 480 program. The Corporation had assets at September 30, 1980, of over $16 billion consisting mostly of receivables from foreign countries and domestic farmers and commodity inventories obtained under the loan programs. A net loss of about $2.3 billion was reported by the Corporation for fiscal year 1980.

Audit of the Financial Statements of the Federal Crop Insurance Corporation

(ongoing)

This audit is for the purpose of expressing an opinion on the financial statements of the Federal Crop Insurance Corporation (FCIC) for fiscal year ending September 30, 1981. GAO's last audit of FCIC was for fiscal year 1978. GAO is required by the Government Corporation Control Act to audit the financial statements of FCIC and report to the Congress.

FCIC is a Government-owned corporation, which was created in 1938, to promote the national welfare by providing crop insurance to improve the economic stability of agriculture. At September 30, 1980, the Corporation reported a deficit of $112.3 million and had no unissued capital stock.

Review of the Adequacy of Controls Over Safety of Imported Meat and Poultry Products

(ongoing)

GAO has started an assignment to review the Food Safety and Inspection Service's (FSIS') foreign meat and poultry inspection program to evaluate how well FSIS is carrying out its responsibilities under the Federal Meat Inspection Act and the Poultry Products Inspection Act to inspect imported meat and poultry products to ensure that they are safe, wholesome, and unadulterated. In carrying out this responsibility, FSIS establishes the eligibility of foreign countries to export to the United States, monitors the adequacy of the foreign governments' plant inspection systems, and inspects products at U.S. ports of entry. In calendar year 1980 FSIS inspected and approved 2.1 billion pounds of imported meat and poultry products and rejected 10.5 million pounds.

The objectives of this review are to determine the efficiency and effectiveness of FSIS'

--sampling and inspection procedures of imported meat and poultry products at U.S. ports of entry, and

--approval and monitoring of the inspection systems of exporting countries to ensure that they are equal to the U.S. system, as required by the Federal meat and poultry inspection acts.

As part of the initial phase of this review, GAO will perform work primarily at FSIS headquarters in Washington, D.C., at the Philadelphia port of entry, and in Australia and New Zealand.

Review of the Feasibility of Consolidating U.S. Department of Agriculture Food Quality Assurance Programs

(ongoing)

This review evaluates the potential for administering the Department's food inspection and grading activities provided under the Agricultural Marketing Act of 1946 more effectively. This responsibility is now divided between two of the Department's agencies. Each provides similar services but for different commodities.

Marketing act services are a primary mission of the Department's Agricultural Marketing Service (AMS), which is now responsible for all but certain grain-related commodities. The Department has assigned responsibility for marketing act services on grain-related commodities to its Federal Grain Inspection Service (FGIS), which was created by legislation in 1976 to administer the national grain inspection and weighing program.

GAO has completed its review and recently submitted a draft report to USDA for comment.

Review of the Product Processing Inspection Activities of the Food Safety and Inspection Service

(ongoing)

The Food Safety and Inspection Service (FSIS), through its Meat and Poultry Inspection Program, is responsible for inspecting the slaughter of livestock and poultry and the processing of meat and poultry products shipped interstate or to foreign markets. The purpose of these inspections is to ensure that meat and poultry products distributed to consumers are wholesome; unadulterated; and properly marked, labeled, and packaged.

This review will concentrate on the product processing inspection activities, since they have increased significantly over the last decade with the introduction of many new processed products such as water-added hams, convenience foods, and new poultry products. Although the Federal Meat Inspection Act and the Poultry Products Inspection Act authorize the inspection of these processed meat and poultry products, the acts do not prescribe the specific methods of inspections. However, FSIS believes it has complied with the intent of the acts by, among other things, (1) setting standards of identity specifying the content and usual ingredients which processed products can contain, (2) establishing guidelines on periodic sampling of finished products, and (3) establishing guidelines on chemical analysis procedures to determine whether sampled products are in compliance with established standards.

GAO's review objectives are to assess three important aspects of the processing inspection activities for meat and poultry products. These include (1) whether there is a need for standards of identity for processed poultry products comparable to those required for similar processed red meat products, (2) the efficiency and effectiveness of periodic sampling of finished products, and (3) the adequacy of chemical analysis procedures to determine whether sampled products are in compliance with established standards.

GAO's review will be limited to products for which standards of identity have been established on the maximum percent of fat, water added, and/or extenders which processed products can contain. However, GAO will review comparable processed poultry products for which these standards are not required. The review will include only the highest volume of processed products produced, such as frankfurters, bologna, fresh pork sausage, and hams. GAO plans to judgmentally select about 25 plants to visit in conducting the review.

Review of U.S. Department of Agriculture Actions To Correct Control Weaknesses Identified in Audit Reports

(ongoing)

Agency management and inspectors general have a direct responsibility to prevent and detect fraud, abuse, waste, and mismanagement in Federal programs, activities, and functions. This multiagency GAO review will examine the actions taken or services provided by each in meeting this responsibility within USDA and selected other agencies.

GAO will review and determine the adequacy and timeliness of the agency and program management actions actually taken on audit report findings and recommendations. Management must ensure that administrative and operational policies and procedures needed to guard against errors and irregularities exist, and that they are followed. It must take all reasonable steps to strengthen detected deficiencies and breakdowns in control systems and to correct the effect of these deficiencies on program records and operations.

GAO will also review and evaluate inspector general reports to determine how effectively they identify and communicate internal accounting and administrative control system weaknesses, and inspector general procedures for reviewing and accepting agency plans to correct weaknesses detected during audits. Although they have no direct authority over agency program operations, inspectors general play an important role in preventing and detecting fraud, abuse, waste, and mismanagement. Through their independent audits of program control systems, auditors identify control system weaknesses and irregularities in records and other documentation. The findings made, conclusions reached, and recommendations forwarded to management should form a sound basis for determining actions needed to improve program effectiveness and efficiency.

SUBMITTED QUESTIONS

[The following questions were not asked at the hearing, but were submitted to the General Accounting Office for response subsequent to the hearing:]

GENERAL ACCOUNTING OFFICE

QUESTIONS SUBMITTED BY SENATOR COCHRAN

(RESPONSE BY GAO)

FOOD AND NUTRITION SERVICE PROGRAMS

1. Mr. Eschwege have you had a chance to evaluate the various recommendations and changes that the Administration has made to the Congress for cutbacks and/or savings in the programs of the Food and Nutrition Service? What would be the impact of these changes on the recipients of benefits of these programs? Please outline, for the record, the impact on each program.

GAO response: The administration has advanced a number of proposals to control food stamp program growth by changing eligibility criteria, phasing in State responsibility for benefit overpayments, and consolidating Federal administrative funding for several income security programs. Although we have not evaluated the initiatives affecting individual households, we believe they generally would tend to reduce average monthly food stamp benefits and the number of households eligible for benefits.

In our testimony we pointed out that for the 6 months ended March 31, 1981, (the latest period for which a nationwide figure was available), the error rate applicable to overissuances of food stamp benefits was 10.6 percent. If quality control reports for the second half of fiscal year 1981 show similar error rates, overissued benefits for the year will total $1.1 billion.

Because food stamp benefits are totally financed by the Federal Government, there is a lack of sufficient financial incentive to devote more resources and effort to improving program integrity and recovering overissuances. Although the Congress has authorized higher rates of administrative cost reimbursement as incentives for reducing error rates and pursuing fraud, these measures have not yet had notable overall effect on reducing errors and overissuances.

We have not taken a position on the specific percentage of erroneous welfare payments for which States should be responsible. In our testimony we expressed the belief that requiring States to gradually assume more financial responsibility for overissuances of food stamp benefits would provide a major financial incentive to reduce errors. Because States depend on State-managed quality control reviews to determine the percent of program benefits paid erroneously, particular attention would have to be given to the process and results of these reviews. Although Agriculture considers the quality control reviews in the food stamp program adequate for showing the incidence of errors, modifications may be necessary to establish more reliable information on dollar overissuances for individual States to avoid disagreements regarding the amount of a State's liability. Additionally, systematic Agriculture verification work would be needed to provide a measure of validity of quality control review results.

Our testimony also commented on the proposal to consolidate Federal administrative funding for the food stamp, AFDC, and medicaid programs starting in fiscal year 1983. Restructuring administrative operations and removing separate cost allocation and reporting requirements for the three programs as envisioned under the proposal could present opportunities for savings. Savings are possible because the food stamp and AFDC programs are generally administered by and through the same State and local offices and are sometimes handled by the same caseworker.

Also, unless an error reduction and control mechanism such as the proposed phase-in of State financial responsiblity for errors is adopted, there is no assurance that given a specific grant for administrative expenses as proposed, States would sustain or improve their administrative efforts for the food stamp program for which the Federal Government pays 100 percent of the benefits provided, as contrasted with the AFDC and medicaid programs which the States help finance. Without such a mechanism, savings in administrative costs might be offset or exceeded by increased food stamp program overissuances.

Regarding the child nutrition programs, the President proposes to eliminate the summer food service and special milk programs and to merge the school breakfast and child care food programs into a grant to the States. The President also proposes to transfer the Special Supplemental Food Program for Women, Infants, and Children (WIC) to the Department of Health and Human Services where it would be included in a block grant. Nutrition education activities are to be left to State and local discretion. Our comments on these proposals follow.

Summer food service program - We have reported in past years that the summer food service program has had major recurring problems. During the summer of 1982 the Service expects that 45 million meals will be served to 900,000 children at a cost of $61.1 million. The President's proposals for fiscal year 1983 would eliminate the program. The broad flexibility contained in a new proposal for a General Nutrition Assistance Grant would allow States to operate a summer food program if they wished to do so.

School breakfast program and child care food program - We have reported in past years that management of the child care food program needed improvement and that communities should have a voice in deciding whether to have a school breakfast program. During fiscal year 1982, the Service expects that the breakfast program will serve an estimated 675 million breakfasts to 4 million participating children at a cost of $335 million. Also during fiscal year 1982 the child care food program will serve an estimated 469 million meals to a daily average of 871,000 children at a cost of $277 million.

The President's proposals for fiscal year 1983 would combine the school breakfast program and child care food program into a General Nutrition Assistance Grant of $488 million. Those States that wished to continue these programs in fiscal year 1983 would finance them with funds derived from the General Nutrition Assistance Grant. At this time, the Service does not know how many States would opt to continue with these programs nor the amount of grant funds that would be made available to individual States.

Special milk program - The Service estimates that in fiscal year 1981, 1.6 billion half-pints of milk, at a cost of $119.8 million, were served under the special milk program. The Omnibus Budget Reconciliation Act of 1981, enacted August 31, 1981, restricted participation in the program to schools and institutions that did not participate in another meal service program authorized by the Child Nutrition Act or the School Lunch Act and thereby eliminated about 76,187 schools and institutions that participated in fiscal year 1981. Between October 1, 1981 and June 30, 1982, the first reporting period covered by the act, the Service expects to reimburse about 8,421 schools and institutions for part or all of the cost of approximately 240 million half-pints of milk served to children, including about 30 million half-pints served free to children whose reported family income is at or below 130 percent of the poverty level. Total cost to the Federal Government for fiscal year 1982 is estimated to be $28.1 million. The President's proposals for fiscal year 1983 would eliminate the program beginning July 1, 1982.

Special Supplemental Food Program for Women, Infants, and Children (WIC) - During fiscal year 1982, the Service expects that the WIC program will reach an average of 2,163,000 low-income pregnant, postpartum, or breastfeeding women, infants, and young children each month at a total cost of about $956 million for the year. The President's proposals for 1983 would combine WIC with the maternal and child health grant program, estimated to cost about $347 million in fiscal year 1982 and administered by the Department of Health and Human Services (HHS), into a $1 billion grant to States for service to these targeted groups. The grant would be administered by HHS. Although we are not able to comment on the effect that such merging would have, we have pointed out in a February 1979 report that the Congress intended WIC to operate as an adjunct to good health care and that there was a need for strong coordination of the WIC program with the activities of HHS.

Nutrition education and training - In fiscal year 1981, $15 million was made available to the States for nutrition education in schools. The Omnibus Budget Reconciliation Act of 1981 reduced the funding to $5 million for fiscal year 1982. The President's fiscal year 1983 budget proposes to eliminate Federal funding for nutrition education and training programs. We will be reporting soon that financial resources for nutrition education in schools need to be used more effectively and that, as pointed out in our statement, many experts believe that educating school children is the most effective way to develop a nutritionally informed population.

We do not know whether, or to what extent, States and localities would continue nutrition education programs using their own financial resources if Federal funding were discontinued. However, we are developing recommendations on actions that USDA could take to address some of the difficulties being experienced by individuals involved in the NET program. These are actions we believe USDA should take regardless of whether the Federal Government continues funding NET or nutrition education in the schools is left entirely to the States.

SCHOOL LUNCH PROGRAM

2. Recent studies show that some three million children have stopped participating in the Federal school lunch program since Administration budget cuts took effect last September. Schools across the Nation have increased their prices and tightened their eligibility requirements for free and reduced-price lunches, because of cutbacks in Federal food subsidies which began last year. Has GAO had an opportunity to look at the school lunch program this year?

GAO response: Our latest report ("Efforts to Improve School Lunch Programs--Are They Paying Off?" CED-81-121, Sept. 9, 1981) discussed the difficulty that the Department of Agriculture has had in meeting its nutrient goal for school lunches even when meal portions served met or exceeded the requirements of the prescribed meal pattern. The report also discussed various methods some school districts are using to serve more nutritious school lunches and to increase student participation and reduce food waste and program costs. We have not made any assessment of the impact of budget cuts on school lunch participation rates.

a. Do you concur with the findings of these studies that these schools dropped out because of the reductions in last year's budget?

GAO response: Our work did not address this issue. The latest complete USDA information--for fiscal year 1981--for student and school participation shows that 26.2 million children participated in the lunch program in fiscal year 1981 compared with 26.6 million in 1980. The total number of participating schools decreased by 606--from 94,376 in March 1980 to 93,770 in March 1981.

b. Do you have any reading as to how many additional schools may have dropped out, but didn't because districts picked up the additional costs?

GAO response: We do not have any reading on this and information needed to determine the strategies schools used to overcome lower Federal subsidies and still maintain a lunch program is not routinely kept by Agriculture.

FOOD STAMP PROGRAM IN PUERTO RICO

3. Last year at our hearing, you discussed in some detail the problems in Puerto Rico in regard to the food stamp program. Have the problems of overissuances, etc., improved in the past year? In July 1982, the block grant goes into effect in Puerto Rico. Do you think

this approach will improve the program and how effective is it going to be?

GAO response: We have not done any additional audit work on Puerto Rico's administration of the food stamp program since last year's testimony. Comparison of Puerto Rico's reported overpayment rates for the last three 6-month quality control periods ending March 1981 shows an increase in incorrect payments.

Enabling legislation for the block grant approach in Puerto Rico required that the Commonwealth provide its first operating plan by April 1982. We have not yet had an opportunity to review that plan. Also, since the new program is not scheduled to get underway until mid-1982 and some period of time for operating under the new system would be needed to make an informed assessment, we cannot at this time venture an opinion on how well the system will work.

BUSINESS AND INDUSTRIAL LOAN PROGRAM

4. You mentioned that the Farmers Home Administration paid approximately $40 million in losses in Business and Industrial guaranteed loans. Also, several borrowers were in the process of liquidating business and industrial loans totaling $222.5 million. Despite all of the problems associated with this program, is it accomplishing its intended purpose of assisting in the development of employment opportunities in rural areas and to make available greater amounts of capital in rural areas? I know audits have been made of this program. Does the fault rest with the Farmers Home Administration on these loans? Does the Farmers Home Administration have sufficient staff and is that staff sufficiently specialized to properly administer this program?

GAO response: In our September 30, 1977 report, "Farmers Home Administration's Business and Industrial Loan Program Can Be Improved" (CED-77-126), we reported on how FmHA needed to improve program administration to

--measure and report more accurately program accomplishments,

--better assess proposed loans,

--provide better loan servicing and management assistance to borrowers, and

--attain enough qualified staff.

In that report, we stated that although FmHA indicated that its program saved and created 29,800 jobs in fiscal year 1975, only about 11,100 jobs actually were saved or created. In addition, we reported that several firms either had gone out of business, filed for bankruptcy, fallen behind on their loan payments, or operated without profit within 8 to 26 months after receiving loans. Also, we found that 19 of the 35 loans we reviewed were used to refinance loans previously made by the lender. We expressed the belief that the loans in these latter two categories did not provide lasting benefits to the economies of rural areas or expand the capital available to rural areas.

Although some improvements have been made since our 1977 report, problems still exist. These problems were discussed in our January 30, 1981 report to Senator Roger W. Jepsen entitled "Summary of Major Deficiencies in the Farmers Home Administration's Business and Industrial Loan Program" (CED-81-56). In that report we stated that to correct the continuing deficiencies

- --a better balance will be needed between staffing and program activities;
- --loan-approving officials should be required to certify loan approval to some outside entity, such as OIG, for loans previously rejected at a lower review level;
- --FmHA needs to continue strengthening its monitoring capabilities;
- --periodic audits and congressional oversight should be carried out as needed to surface problems and ensure their correction;
- --remedial training, and where appropriate, disciplinary action, must be provided when program requirements are not followed; and
- --FmHA should subject loans involving refinancing to national office approval should its efforts to tighten program requirements fail to result in approving sounder loans.

FARMERS HOME ADMINISTRATION

5. Much has been said recently about the fear among farmers that the Farmers Home Administration is cracking down on farmers who are unable to show ability to repay in this difficult economic period. Your audits have also shown that many borrowers did not have long-term repayment plans and/or the ability to make repayment. You say the Farmers Home Administration has instructed its State offices to vigorously pursue civil or criminal action against borrowers. Yet, Secretary Block is quoted as having said the Department would "walk the extra mile" with farmers to get them through "these cloudy times." Is this not a little contradictory? Do you believe we will be seeing an increase in the number of delinquencies and/or foreclosures? Have you made any recommendations and/or suggestions to the Farmers Home Administration which would be helpful to borrowers in meeting their scheduled payments, etc? Does the Farmers Home Administration have the management capability to fully implement the recommendations? Last August, the General Accounting Office issued a report on the limited-resource farmer loan program. Is the Department/FmHA on schedule with respect to its proposed corrective actions?

GAO response: Perhaps some of the confusion about FmHA's repayment policy for farmer loans can be attributed to recent changes in the policy. In October 1981, FmHA issued a memorandum explaining its policy at that time on farmer program loan delinquencies and foreclosures. This memorandum pointed out that farmers must show sufficient income available to repay both principal and interest on new FmHA loans for the 1982 crop year. However, in February 1982, FmHA issued another memorandum which requires only a "reasonable chance" of repayment of any new loan made for 1982 production purposes. This memorandum points out that "FmHA will consider all available rescheduling, reamortization, and deferment of present FmHA loans under certain conditions * * *." Further, the memorandum states that "FmHA will carry borrowers delinquent for the 1982 crop year * * *" provided certain criteria are met.

Based on our recent conversations with three county supervisors in the Washington, D.C. area, and FmHA's February 1982 policy as outlined above, we believe that the number of foreclosures should be insignificant in 1982. However, the number of delinquencies is expected to increase substantially.

We have not made any recommendations to FmHA which would be helpful to borrowers in meeting their scheduled payments. However, we recently started a survey of FmHA efforts to help farmers repay their loans which might result in such recommendations. We do not know at this time what the results of our survey will be, but any recommendations we make to help farmers meet their scheduled payments will be contingent on FmHA's ability to implement them. We will be in a better position to assess FmHA's management capability in this area after we develop any specific recommendations.

The Department/FmHA has taken or is planning to take action on the recommendations in our report on the limited-resource farmer loan program. A number of these actions are not expected to be completed until late in fiscal year 1982. We will periodically followup on each of our recommendations until the promised corrective action is completed.

COMMODITY CREDIT CORPORATION

6. In view of the increased visibility over the past few months on the functions of the Commodity Credit Corporation with regard to the loan status of Poland and Romania, have you conducted any investigations or audits along this line? If so, what were the results?

GAO response: As part of our financial statements audit of the Commodity Credit Corporation we included the Polish and Romanian debts in our evaluation of the adequacy of allowances for doubtful loans. Our review, however, is not yet completed. We will send you a copy of any report when it is released.

a. It is my understanding that it is expected that there will be a sizeable increase in Commodity Credit Corporation outlays in fiscal year 1982 and 1983. This need may approach $9 billion. Have you had an opportunity to look into this?

GAO response: Although we have not conducted an overall review of the increase requested, we have several reviews currently underway which address various aspects of the Commodity Credit Corporation (CCC) outlays. These reviews include:

--Review of commodity storage practices to examine into the policies and procedures followed by CCC in its storage of dairy products to determine areas in which greater efficiency is possible.

--Review of the wool and mohair payment program to determine whether the objectives of the program are being met in the most efficient and effective manner.

--Review of the tobacco program to obtain information on tobacco price supports and the allotment/quota system.

--Review of the wheat deficiency payment program to address the issues of (a) the role of deficiency payments, (b) whether distributions of deficiency payments are inequitable, and (c) whether alternative methods of payment computations will improve operations.

b. Have you investigated or studied the recent distribution of surplus cheese? What is your assessment of that situation? Of other commodities in storage?

GAO response: We have not investigated the distribution program. We may want to look into it when staff resources and work priorities permit.

On a related matter, we are in the final stages of a review of the Department's policies and procedures for storing dairy commodities acquired through the dairy price support program. We expect to issue a report in the near future which will comment on ways in which programs might be operated more efficiently.

In a report addressed to Representative Don J. Pease on September 18, 1981 ("Storage Cost Data on CCC-Owned Dairy Commodities," CED-81-157) we provided data on the cost of storing commodities and the amount lost to spoilage. We said that the Government's cost to store dairy products has risen sharply, totaling over $24 million for the first 9 months of fiscal year 1981 compared to fiscal years 1977-80, when inventories were at lower levels and costs averaged about $11 million.

QUESTIONS SUBMITTED BY SENATOR EAGLETON

(RESPONSE BY GAO)

FOOD STAMP PROGRAM

1. The Congress, through action taken in the Food Stamp Act Amendments of 1980, the Omnibus Reconciliation Act and the Farm Bill, has been very responsive to the issue of fraud and abuse in the food stamp program. The real problem, in my opinion, is that the Administration has been extremely slow in implementing changes in law aimed at protecting this program against fraud and abuse. Could you tell us how many recommendations you have made in this area over the past two years, how responsive the Congress has been in making the necessary changes in law and what the record of this Administration has been in implementing these changes?

GAO response: We have made a number of recommendations for legislative revisions to the food stamp program since 1980. In general, the Congress has been very responsive to enacting legislative changes we have recommended, but there have been delays in Agriculture's implementation of food stamp legislation. The list below includes the more important provisions (some of which were responsive to our recommendations) in the three most recent amendments to food stamp legislation which had not been put into effect as of March 22, 1982 by the Department of Agriculture.

Food Stamp Amendments of 1980

—Authorized States to conduct wage matches to verify recipient income.

—Required States to adjudicate fraud either through the courts or administrative hearings.

—Required counting a share of an ineligible alien's income toward that of his household for determining food stamp benefits.

Omnibus Budget Reconciliation Act of 1981

—Extended fraud penalties to those who intentionally misrepresented application data.

—Allowed States to offset overissuances against future benefits up to the greater of 10 percent or $10.00 each month.

—Allowed States to retain 25 percent of all non-fraud collections, except for those stemming from agency error.

—Revised mandatory disqualification periods for violators convicted of food stamp fraud through administrative fraud hearings.

—Required retrospective accounting to be used in determining income for most food stamp recipients.

- —Provided for periodic reporting of changes in household circumstances affecting monthly allotments.

Food and Agriculture Act of 1981

- —Required that AFDC adjustments (retroactive or supplementary benefits) be treated as food stamp income.
- --Excluded energy assistance payments from food stamp income.
- --Prohibited deducting expenses paid by a third party.
- --Required counting a portion of a sponsor's income toward that of an eligible alien applying for food stamps.
- --Disqualified households which contain a member failing to meet a comparable work requirement of any other Federal program.
- --Allowed the Secretary of Agriculture to set tolerances for mail issuance errors.

2. The Administration's budget proposal contains a new error rate sanction system which assumes over $600 million in savings, resulting from States lowering their food stamp error rate to 3 percent by October 1, 1982. Do you believe the States can achieve 3 percent error rates by October 1?

GAO response: The Administration's budget proposal would phase in full State responsibility for overpayments during fiscal years 1983 through 1986. Starting in fiscal 1983, the Federal Government would not share in the costs of any overpayments exceeding 3 percent. This threshold would decline by 1 percent each year until, in fiscal 1986, States would have to assume the costs of all program overpayments in the AFDC, food stamp, and medicaid programs.

With regard to the food stamp program, quality control review results for the October 1980 to March 1981 period show that only one State had an overpayment rate below 5 percent and that 33 States' rates exceeded 9 percent. The national overpayment rate was about 10.6 percent.

Substantially more Federal and State attention to program integrity will be required before a 3-percent overpayment rate can be achieved by October 1.

SUMMER FEEDING PROGRAM

3. You have indicated that the summer feeding program has been eliminated from the President's budget and that the GAO had reported on recurring problems in the program. Did the amendments contained in the Omnibus Budget Reconciliation Act of 1981 which eliminated certain sponsors of the program correct the major concern of the GAO concerning the program?

GAO response: Many of the problems cited in our earlier reports--poor quality food, inadequate food storage, unauthorized removal of meals from feeding sites, inadequate facilities used during inclement weather, and overstated reimbursement claims—were caused by the actions of private sponsors. The Omnibus Budget Reconciliation Act of 1981 eliminated most private sponsors from the program. Participation is now limited to public or private non-profit school food authorities; local, municipal, or county governments (provided that such programs are operated directly by such governments); and residential summer camps.

COMMODITY FUTURES TRADING COMMISSION

4. Please describe in additional detail the report you recently completed on the CFTC, your recommendations concerning changes in their current authority and whether or not the CFTC has recommended these changes to the Congress.

GAO response: Our draft report, a copy of which was provided to the Senate Appropriations Committee on February 24, 1982, included proposals to the Congress in the areas of market surveillance, registration, and reparations. Specific legislative language reflecting our proposals is included as Appendix XII to the draft report.

Most of the proposals in our draft report have been included in the legislative package CFTC submitted to the Congress in conjunction with reauthorization hearings. GAO and CFTC propose to:

—Authorize CFTC to routinely disclose large-trader information to contract markets for market surveillance purposes, with adequate safeguards to protect the information's confidentiality.

—Allow registration applicants/registrants to appeal to CFTC any registration decision made by a registered futures association.

—Authorize a registered futures association to register various industry participants in lieu of registration with CFTC.

—Allow for proficiency testing of all industry participants and allow a registered futures association to develop and implement such testing with CFTC approval.

—Clarify the authority of a registered futures association to collect and submit fingerprints of its members to the FBI for identification purposes.

—Raise the dollar limit on the amount of claims that customers can compel exchange members and members of a registered futures association to arbitrate and allow for a periodic review and adjustment of such a dollar limit.

When CFTC incorporated this last suggestion into its legislation package, it proposed removing the dollar limit entirely on cases that may be arbitrated.

The one GAO proposal not included by CFTC in its legislative package called for the Congress to clarify its intent regarding whether customers have a private right of action to adjudicate commodity-related claims in Federal court, even though these claims might also be submitted to CFTC's reparations program for resolution.

FOOD AND NUTRITION SERVICE PROGRAMS

5. In the description provided in the appendix of your preliminary findings in the review of Federal nutrition education efforts, you state "GAO's study indicates that many experts believe that educating school children is the most effective way to develop a nutritionally informed population." That being the case, do you believe the President's decision to eliminate the Nutrition Education and Training Act funding makes any sense?

GAO response: Our review addressed Federal involvement in nutrition education in the schools, primarily USDA's Nutrition Education and Training Program (NET), and the importance of such education in improving eating habits and reducing food waste in Federal feeding programs and in the home. Nutrition education in the schools also has the potential for reducing the Federal Government's need to disseminate nutrition information to the public and provide nutrition education for specific target groups outside of schools.

We do not know whether, or to what extent, State and local officials would continue such programs if Federal funding were discontinued. However, we are developing recommendations on actions that USDA could take to address some of the difficulties being experienced by individuals involved in the NET program. These are actions we believe USDA should take regardless of whether the Federal Government continues funding NET or nutrition education in the schools is left entirely to the States.

FEDERAL CROP INSURANCE CORPORATION

6. The Federal Crop Insurance Corporation has requested a substantial increase in their FY 83 budget. Based on the preliminary work completed on FCIC, do you believe it to be wise policy to provide funds to continue to expand beyond coverage of the basic crops which were protected by the old disaster program, or should we first do a comprehensive evaluation of the job they are doing under the existing program?

GAO response: The Crop Insurance Act of 1980, Public Law 96-365, enacted September 26, 1980, culminated several years of congressional debate on the need to eliminate the old disaster program, and substitute in its place a subsidized all-risk crop insurance proram for 28 crops including the 6 covered by the disaster programs. The act directed the Federal Crop Insurance Corporation to use the private insurance sector to market and service the insurance to the extent feasible.

As you have indicated, our work is in the preliminary stages and therefore it is too early for us to comment on the merits of curtailing the expansion of crop programs beyond the six disaster crops.

DEPARTMENT OF AGRICULTURE

FOOD AND NUTRITION SERVICE

FOOD AND CONSUMER SERVICES

STATEMENT OF JOHN BODE

Senator EAGLETON. We have the Food and Nutrition Service people here, and I think we will hear from them before we go on to the Commodity Futures Trading Commission.

Sir, would you give us your name and title, indicating the scope of your duties, and also the name and title of the gentleman with you.

Mr. BODE. Senator, I am John Bode, B-o-d-e. I am Deputy Assistant Secretary for Food and Consumer Services. The Food and Nutrition Service reports to our office.

With me is Andy Horsnby, H-o-r-n-s-b-y. He is Deputy Administrator for Regional Operations in the Food and Nutrition Service.

Senator EAGLETON. Are both of you schedule C or career employees?

Mr. BODE. I am a political appointee. Mr. Hornsby is career.

Senator EAGLETON. Did you come straight off the farm, Mr. Bode?

Mr. BODE. No, sir, I was previously a staff member of the Senate Agriculture Committee.

Senator EAGLETON. Which one?

Mr. BODE. Senate Agriculture.

Senator EAGLETON. Oh, the authorizing committee.

ILLEGAL USE OF FOOD STAMPS

Here is why we asked you to come down. I am sure it was described to you over the phone. The President in his press conference last night said the following: "And just recently we have been doing some investigating, so we can intelligently deal with a program of that kind"—he is talking about food stamps—"with a program of that kind, and we have found in the first investigation that 57-percent of the stores that were investigated are selling items for food stamps that are banned, that food stamps are—it's illegal to use food stamps to buy those things."

Can you shed some light on this? First of all, has this investigation culminated in any kind of a report?

Mr. HORNSBY. Senator, it is a series of investigations.

Mr. BODE. Senator, there are a series of investigations that have been conducted. The President is absolutely right in his report that in calendar year 1981 investigations by our compliance staff in the Food and Nutrition Service, in cooperation with our field offices, found that 57 percent of the stores investigated were accepting food stamps for ineligible items. There were 5,000 stores investigated out of a total of about 240,000 stores.

Senator EAGLETON. How was this investigation conducted? What would be a typical way one of your folks went into a typical supermarket and investigated?

Mr. BODE. There are a number of ways that these investigations could be spurred. They are not a random sample, if that is the point you are trying to make. Typically, some complaint may have been received or, as I think you know, Senator, we monitor food coupon redemptions made by all of our retailers. If something out of the ordinary develops and shows up in that computer monitoring, an unusually high level of redemptions, for example, or some dramatic fluctuation in redemptions, that spurs an investigation.

I think there is an additional point that should be made here. Almost all of these stores received a letter of warning prior to the investigation.

Senator EAGLETON. So these were sort of high-risk stores. I mean by either private consumer complaint or warning letter or something. This probably wasn't a Georgetown Safeway.

Mr. BODE. We had reasons to conduct the investigations going on, so they were the high-risk stores.

Senator EAGLETON. This was not, by your own testimony, the random sample poll; these are high-risk stores.

Mr. BODE. That is correct. They are relatively high-risk stores.

Senator EAGLETON. These are stores that trade in food stamps in a greater volume and with greater frequency than, say, the Georgetown Safeway or Chevy Chase supermarkets out in posh Chevy Chase. There is nothing wrong with that.

Mr. BODE. They have received a letter of warning; they are suspect.

Senator EAGLETON. OK, the investigator goes in. Does he sort of hover around one of the checkout counters and see what is going on?

Mr. BODE. I will ask Mr. Hornsby to comment.

STORE INVESTIGATIONS

Mr. HORNSBY. Let me explain that. The investigator will use one of two methods of investigating the store. He or she will either do it personally or they will hire local people if they don't think they can fit with the normal clientele of the store. They will actually shop with food coupons through a series of transactions, generally five different transactions in the store, buying anything that can be purchased. And, they are trained fairly well to avoid entrapment, to go in and purchase the item, let the merchant decide. We do not want any pressure.

Senator EAGLETON. So some of these purchasers were shills—they are used in law enforcment. The hired shill went in and pushed a cart around, put some hamburger in it, put some beans in it, and then put some Pepsodent toothpaste in it.

Mr. HORNSBY. Exactly right.

Senator EAGLETON. And Pepsodent is prohibited.

Mr. HORNSBY. Correct.

Senator EAGLETON. Not just Pepsodent, but toothpaste is not purchasable with food stamps.

Mr. HORNSBY. Correct.

Senator EAGLETON. Then he wheels the cart up to the checkout counter; they ring up the purchases on the register, and the shill pays for them in food stamps.

Mr. HORNSBY. Right.

Senator EAGLETON. How many of these investigations were done by the hired shill route vis-a-vis observing a citizen pushing his or her cart through the checkout counter?

Mr. HORNSBY. They were all done by either the investigators themselves or by a hired person to conduct the investigation. No private citizens are involved.

Senator EAGLETON. I find that sort of interesting. So the whole investigation was done either by an investigator himself throwing things in the cart or a hired shill threw things in the cart.

Mr. Hornsby. We call them investigative aides. The investigative aides are supposed to be supervised, keeping them in observation at all times; we make sure that they don't have the opportunity to take any money with them in the store, and that they are only taking food stamps. We train them very carefully on what to shop for, try to keep them under control, and make sure they don't compromise the investigation by putting undue pressure on the store, such as "Please let me have the beer."

Senator EAGLETON. Do you know if any of the investigators in any cases put a bottle of vodka in their cart?

Mr. HORNSBY. I would suspect in the course of 5,000 investigations that vodka was purchased in some of them, but it would depend on whether or not liquor is sold in grocery stores in that State. I would suspect some of our investigation reports disclosed vodka. I would bet on it. Liquor is an item that is a flagrant violation, and during the course of our investigations, we escalate these purchase attempts into more flagrant violations if the store is willing to do so. The example you used of Pepsodent toothpaste is not a real serious violation. A bottle of vodka is a serious violation.

Senator EAGLETON. Are you aware that Mrs. Jarratt, the Assistant Secretary of Agriculture, said that the President was talking through his hat with his earlier off-the-cuff remark about purchasing vodka?

Mr. BODE. Sir, she is my boss. I was not aware of the fact she used the phrase you talked about. I think her point was that purchase of a bottle of vodka, which one usually assumes sells for more than $1, is not proper under our regulations.

Senator EAGLETON. Well, we will get the President's exact quote. He had somebody buying an orange. We will let the quote speak for itself, and we will put Mrs. Jarratt's quotation in the record as well.

[The article follows:]

OFFICIAL DEBUNKS VODKA ANECDOTE

(Associated Press)

A top Agriculture Department official said yesterday that President Reagan "was misinformed" when he related how a young man had used change from food stamps to buy a bottle of vodka.

Assistant Agriculture Secretary Mary Jarratt, who oversees the Nation's $11 billion food stamp program, said it was virtually impossible that such a transaction had occurred.

In a recent interview, Sen. Bob Packwood (R–Ore.) recalled that in respsonse to a question about the prospect for huge budget deficits, the president has said:

"You know a person yesterday, a young man went into a grocery store and he had an orange in one hand and a bottle of vodka in the other, and he paid for the orange with food stamps and he took the change and paid for the vodka. That's what's wrong."

"That example," Jarratt told the House Agriculture Subcommittee on Nutrition, "did not come from the Department. We are following up on that with the White House * * *. We will try to find the source of the story."

John Graziano, the Agriculture Department's Inspector General, told the subcommittee later that substantial amounts of food stamp funds are being diverted from eligible recipients because of major fraud schemes. He said his office is implementing the limited police powers Congress granted it last year to cope with major illegal food stamp schemes.

Rep. Fred Richmond (D–N.Y.), subcommittee chairman, noting that cash change in any food stamp transaction has been restricted to amounts less than $1 since 1977, said of the president's anecdote, "Show me a store that sells vodka for 99 cents, or really less than 70 cents since single oranges are at least 30 cents, and I'll believe anything."

CLASSIFICATION OF ITEMS

Senator EAGLETON. Let's get back to this investigation. Pepsodent is not a grievous violation.

Mr. BODE. It is not a violation we consider flagrant. In our investigations we are looking for flagrant violations.

Senator EAGLETON. How about a bar of soap; is that permissible under food stamps?

Mr. HORNSBY. We classify them into two groups of items, major items and minor items. The major items are items costing $5 or more—an item of alcoholic beverages or cartons of cigarettes. Minor items are nonfood items costing less than $5, such as soap, washing powder, and toothpaste.

Senator EAGLETON. Let me get some of these, not so fast. Such as toothpaste.

Mr. HORNSBY. Well, soap, hand soap.

Senator EAGLETON. Bars of soap, cleansing powder.

Mr. HORNSBY. Yes; any item that you buy in a grocery store that costs less than $5, we consider minor.

Senator EAGLETON. Now the 57-percent violation rate at these high-risk targeted stores, does that 57 percent include a lot of these minor violations?

Mr. BODE. It includes the minor violations. As I think the President indicated, those were unauthorized sales.

Senator EAGLETON. He didn't say major or minor, that is correct. He said unauthorized sales.

Now can you break down that 57 percent between major and minor and in so doing give us the error rate at these high-risk stores, highly targeted stores?

Mr. BODE. I am afraid we don't have that with us, but I am confident we can get it to you shortly for the record.

Senator EAGLETON. Would you?

Mr. BODE. Yes.

Senator EAGLETON. How soon is shortly?

Mr. BODE. Today.

Mr. HORNSBY. Say exactly what you want one more time.

Senator EAGLETON. Here is what I want: Five thousand stores were surveyed, not a random survey, and I am not quarreling with the methodology used. You picked high-risk stores, stores where you had a complaint, stores where the utilization of food stamps was very high, stores that had a warning letter, high-risk stores. And you found 57 percent——

Mr. HORNSBY. Two thousand seven hundred of them.

Senator EAGLETON. Two thousand seven hundred violations, and violations can be of two different types. For instance, in my religion we have venial sins and more significant ones. Sometimes the more significant ones are more fun than the venial ones. But of this 57-percent error, my suspicion is the vast bulk of those were minor violations. My suspicion is the vast bulk of those were toothpaste, soap, cleansing powder, that is, things under $5. What do you think about my suspicion?

STORE DISQUALIFICATIONS

Mr. HORNSBY. No; I don't think that is correct. Out of 2,700 that were found to be violations, 1,754 were violations serious enough to warrant disqualification or removal from the food stamp program. So more than half were major violations; the difference in that figure would be those minor violations.

Senator EAGLETON. I stand corrected. That is what I am trying to get—some facts. So 1,754 out of the 2,700 were serious.

Mr. HORNSBY. Yes, sir, serious enough to warrant a disqualification for 30 days to 3 years, depending on circumstances.

Senator EAGLETON. How many of that 1,754 had previously received warning letters?

Mr. HORNSBY. All of them.

Senator EAGLETON. All of them?

Mr. HORNSBY. Yes, sir. We don't disqualify a store until they have been warned unless we get into a spin-off investigation where you are in a store and they say, well, I won't buy these food stamps from you but the store down the street might, I understand. The investigator will do what we call a spin-off investigation, and if serious violations are occurring, we may disqualify that store without a warning. It is generally our practice never to investigate—we say investigate for cause—until the store has been warned both verbally and in writing and it has been monitored. With limited resources, and covering 240,000 stores, you have to pick out the high potential violators. And, you should warn them. It helps in court. They can take us to U.S. District Court.

Senator EAGLETON. These are the worst of the bad guys?

Mr. HORNSBY. Yes, sir.

NIH ANALOGY

Senator EAGLETON. Now suppose out at the National Institutes of Health, the Cancer Institute, they have a hundred patients out there today with lung cancer and they wanted to ascertain the incidence of lung cancer related to smoking, and they surveyed those hundred people with lung cancer and found that 50 of them were heavy smokers. Would that be an accurate reflection, in your judgment, of the statistical incidence of smoking as it relates to lung cancer?

Mr. BODE. No, sir.

Senator EAGLETON. It most certainly would not.

Mr. BODE. No.

Senator EAGLETON. Now these 1,754 worst of the bad, all of whom have received warning letters, are not 1,754 typical supermarkets or typical grocery stores; are they?

Mr. BODE. No, sir.

Senator EAGLETON. These are the cancerous stores. So we are investigating the incidence of cancerous fraud in a predetermined group of stores that already are declared to be cancerous.

Mr. BODE. If one would want to use that analogy.

Senator EAGLETON. And ergo, one comes up with a very high error rate; doesn't one?

Mr. BODE. Certainly, it's a nonrandom sample, as I think the President indicated, just one investigation.

REPORT ON INVESTIGATION

Senator EAGLETON. Are you going to write this investigation up?

Mr. BODE. We can certainly submit a report.

Senator EAGLETON. Had you planned until your appearance here today to write this up?

Mr. HORNSBY. We submit this information on a routine basis annually to the various committees on the Hill.

Senator EAGLETON. But you didn't think enough of this committee to write it up in a report?

Mr. BODE. Well, it is regularly reported, sir.

Senator EAGLETON. But you didn't find this so significant as to write a special report on a special memorandum or to reduce this entire incident to a printed document or typewritten document. Have you reduced this to a typewritten document?

Mr. HORNSBY. Yes, sir. We have reduced it.

Senator EAGLETON. Did you bring the document with you?

Mr. HORNSBY. We have previously submitted it to most of the committees.

Senator EAGLETON. As a document?

Mr. HORNSBY. As an answer to a question.

Senator EAGLETON. Did you bring the document with you?

Mr. HORNSBY. No, sir.

Senator EAGLETON. Didn't I request you bring the report with you?

Mr. SHERMAN. Yes, sir, you did. The information in the phone calls must have gotten misdirected, sir.

Senator EAGLETON. Well, when we finish can you go to the phone and have a clerk or messenger bring down the document or the report?

Mr. HORNSBY. Yes, sir. We can provide that today.

Senator EAGLETON. I know you are out in— —

Mr. BODE. Alexandria.

Mr. HORNSBY. They have that information. We can provide it in a couple of hours.

Senator EAGLETON. You ought to be able to provide it in 30 minutes. The report has been prepared; the document is prepared. It is just the transportation time.

Mr. HORNSBY. Just the xeroxing.

Senator EAGLETON. You won't go back and have a document written for me. I know you won't do that.

Mr. HORNSBY. We will submit the same thing that has previously been submitted.

Senator EAGLETON. Did you put any kind of coding on it, had a red alert, important, vital? Did you flag this in some way?

Mr. BODE. No, sir, I am sure that it was not coded or flagged.

Senator EAGLETON. Who did that document go to? Mrs. Jarratt?

Mr. HORNSBY. Sir, my term is questions and answers, that we submit on a regular basis and we do this annually. We have done it for years. We give our investigative results—and it will probably be a one-page question—the results of our retail investigations, and we give you the whole thing.

Senator EAGLETON. One page?

Mr. HORNSBY. I haven't seen it lately. More than one page.

Senator EAGLETON. You have been testifying now for, I guess, 40-some minutes. You got all this down on one page?

Mr. HORNSBY. More than one page.

DOA STATISTICIANS

Senator EAGLETON. Does the Department of Agriculture have professional statisticians on its staff?

Mr. BODE. Sure we do.

Senator EAGLETON. I guess practically no department in Government issues more statistical documents than the Department of Agriculture; so you have professional statisticians.

Mr. BODE. Yes, sir.

Senator EAGLETON. Did they help you prepare this sample?

Mr. BODE. No, sir, this was an investigation that was a targeted investigation. It was not a random sample, and, to my knowledge, it has never been held out to be.

Senator EAGLETON. The Inspector General left; didn't he? Did you consult the Inspector General in the preparation of this targeted sample?

Mr. BODE. The Inspector General is aware of and cooperates with the Food and Nutrition Service in this investigation.

Mr. HORNSBY. The Inspector General's Office delegates the authority to the agency to conduct retail investigations. They are the investigative arm of Agriculture. They subdelegate the authority to the agency because of the sheer magnitude of the number of retail investigations that have to be conducted in a year. We have had this authority in FNS for about 5 years, and it is delegated to us. And they are very aware of it.

We report serious cases to the Inspector General on a regular basis. They then will go in and conduct criminal investigations of those stores that we suspect are trafficking in food stamps, wholesale Federal criminal violation. There is very close coordination with the Inspector General's Office.

Senator EAGLETON. OK, if you would, please go to the phone and have them send down that memorandum or report.

Mr. HORNSBY. Yes, sir. What we were referring to is in the green sheets; is the breakdown by States on the total investigations done and the results of those investigations. This is what I was referring to.

Senator EAGLETON. Do you have a page that pertains to this specific subject matter about which we have been inquiring? I will put this entire page in the record. It is headed "Food Stamp Program," in caps. On the next line, is "Compliance Investigations—Violations and No Violations, Fiscal Year 1981."

It lists the 50 States, and it has positive cases—violations—negative cases—no violations. Then it has a column of totals.

Mr. HORNSBY. That other sheet is the previous sheet there that says what led to those investigations. This is how many you see, the column "Monitoring visits;" that is how many total stores.

Senator EAGLETON. Number of monitoring visits.

COMPLIANCE INVESTIGATIONS REPORT

Mr. HORNSBY. Right, that is how many stores we go in to check and determine if it is worth investigating the store or not, is there evidence of violations. Number of monitored—66,732. That is the total.

Senator EAGLETON. Get me some xeroxed copies of this.

[The information follows:]

FOOD STAMP PROGRAM

Compliance Investigations - Violations and No Violations
Fiscal Year 1981

STATE	Positive Cases (Violations)	Negative Cases (No Violations)	Total
Alabama	80	63	143
Alaska	4	4	8
Arizona	28	10	38
Arkansas	45	9	54
California	152	121	273
Colorado	10	23	33
Connecticut	22	10	32
Delaware	5	1	6
District of Columbia	7	7	14
Florida	114	71	185
Georgia	102	69	171
Guam	16	5	21
Hawaii	10	2	12
Idaho	9	3	12
Illinois	96	53	149
Indiana	36	17	53
Iowa	10	13	23
Kansas	15	17	32
Kentucky	79	55	134
Louisiana	98	70	168
Maine	8	5	13
Maryland	25	31	56
Massachusetts	94	43	137
Michigan	66	44	110
Minnesota	26	16	42
Mississippi	56	43	99
Missouri	44	38	82
Montana	5	17	22
Nebraska	10	3	13
Nevada	8	7	15
New Hampshire	9	3	12
New Jersey	91	37	128
New Mexico	20	17	37
New York	295	116	411
North Carolina	92	57	149
North Dakota	5	4	9
Ohio	108	103	211
Oklahoma	17	15	32
Oregon	31	27	58
Pennsylvania	131	74	205
Puerto Rico	251	180	431
Rhode Island	18	10	28
South Carolina	72	56	128
South Dakota	0	2	2
Tennessee	108	50	158
Texas	135	195	330
Utah	0	4	4
Vermont	6	7	13
Virginia	32	18	50
Virgin Islands	8	6	14
Washington	27	35	62
West Virginia	22	18	40
Wisconsin	20	33	53
Wyoming	4	8	12
TOTAL	2,782	1,945	4,727

FOOD STAMP PROGRAM

Retailer-Wholesaler Activity
Fiscal Year 1981

State	Number of store visits	Number of monitoring visits	Number of compliance visits
Alabama	918	234	684
Alaska	43	22	21
Arizona	559	493	66
Arkansas	1,925	1,587	338
California	6,614	4,881	1,733
Colorado	2,530	2,082	448
Connecticut	342	45	297
Delaware	374	341	33
District of Columbia	419	368	51
Florida	2,414	392	2,022
Georgia	1,234	117	1,117
Guam	87	55	32
Hawaii	426	292	134
Idaho	474	394	80
Illinois	3,911	2,756	1,155
Indiana	1,456	1,054	402
Iowa	1,650	1,455	195
Kansas	2,252	2,037	215
Kentucky	912	82	830
Louisiana	2,681	2,078	603
Maine	555	319	236
Maryland	1,218	1,037	181
Massachusetts	2,383	1,459	924
Michigan	2,550	2,048	502
Minnesota	1,094	654	440
Mississippi	1,081	616	465
Missouri	3,541	2,761	780
Montana	800	710	90
Nebraska	1,552	1,438	114
Nevada	176	134	42
New Hampshire	604	473	131
New Jersey	3,037	2,266	771
New Mexico	909	705	204
New York	4,462	3,071	1,391
North Carolina	744	269	475
North Dakota	446	381	65
Ohio	2,330	1,124	1,206
Oklahoma	1,022	819	203
Oregon	907	579	328
Pennsylvania	10,331	8,939	1,392
Puerto Rico	7,728	4,080	3,648
Rhode Island	288	162	126
South Carolina	491	252	239
South Dakota	154	112	42
Tennessee	2,754	1,313	1,441
Texas	4,992	3,327	1,665
Utah	1,598	1,255	343
Vermont	322	265	57
Virginia	2,045	1,745	300
Virgin Islands	84	42	42
Washington	1,261	1,050	211
West Virginia	1,868	1,539	329
Wisconsin	918	645	273
Wyoming	407	378	29
TOTAL	95,873	66,732	29,141

FOOD STAMP DISASTER ASSISTANCE

Mr. HORNSBY. Here is another sheet with a bit of narrative on monitoring.

Senator EAGLETON. And that is the only item that pertains to this?

Mr. HORNSBY. Yes, sir.

Senator EAGLETON. This is in the budget justification book, page 145e, and on this one page you discussed food stamp disaster assistance.

Mr. HORNSBY. Grocery monitoring.

Senator EAGLETON. I am reading what is on the page. Then you have a paragraph on automated quality control system and one paragraph on grocery monitoring. I will read that one.

> Food and Nutrition Service is continuing intensive monitoring of grocers and other redemption outlets to detect and penalize fraud and abuse. During fiscal 1981, FNS staff conducted 66,732 monitoring visits, 29,141 compliance visits, and 4,727 compliance investigations of redemption outlets. More than 1,500 grocers were disqualified.

Mr. HORNSBY. Those are fiscal year figures. The figures we are quoting were in calendar year.

Senator EAGLETON. You didn't put attention, attention; we have a hot report on this?

Mr. BODE. No, sir.

Senator EAGLETON. Just a rather matter-of-fact statement printed in with a lot of other statements in the budget justification.

We will xerox that.

All right, if you would, sir, Mr. Bode, go to the phone and ask them to send down by messenger the report or the whatever we call it that we previously alluded to.

Mr. HORNSBY. This is what I was previously alluding to.

Senator EAGLETON. This is the report?

Mr. HORNSBY. Yes, sir.

Senator EAGLETON. Well, let us not waste gasoline. You mean this is what they are going to bring?

Mr. HORNSBY. Yes, sir, that was referring to what I said we previously submitted—some information reporting the results of the investigations.

Senator EAGLETON. Oh, this is it. Ain't much; is it?

Mr. HORNSBY. We have other reports on this activity that are more detailed that we could provide this committee, and possibly, has been provided earlier with a couple of pages.

Senator EAGLETON. Well, do me one favor then. Talk to your best statistical folks out there at Agriculture and ask them if based on the methodology used in this investigation that culminated in those three benign sentences in the green sheets, whether the methodology used in terms of stores investigated would lead one to believe that there is a 57-percent error rate nationwide in the food stamp program so far as the purchase of prohibited items is concerned.

Ask your statistical people.

Mr. BODE. Sir, I will ask them to confirm my statement, that I am sure it is not.

Senator EAGLETON. Ask him to send me a letter on it.

So, what the President should have said last night was that 57 percent of the most suspect stores in the country, of the most grievous violating stores in the country, 57 percent of those stores were found to be in violation. It would be like saying that when Al Capone had a meeting at his house and he had Joe Bananas, Lucky Luciano, Killer Jones, and Greasy Thumb Goozik, all sitting around, they took a sample as to which amongst them was a daily communicant and found that none of them were daily communicants; therefore, it was concluded there were no daily communicants in the United States any more.

But again the President with his great skill would leave the impression after last night's press conference, that there is a 57-percent error rate nationwide; that is the impression the President wanted to leave. That is the impression the President did leave, and the facts don't back that up.

Mr. BODE. With all due respect, Senator, I think the President's statement was that that investigation yielded a 57-percent rate of unauthorized sales. There was nothing inaccurate in what the President said.

Senator EAGLETON. Of the most high risk, proven previous violators. It is an Al Capone situation. You will find a high crime rate in Al Capone's living room; you will find a lot of conspiracy taking place in Al Capone's living room; you will find a lot of prohibition violation in Al Capone's warehouse. But not every grocery store owner in the country is Al Capone, and not every food stamp purchaser or utilizer is Al Capone.

Sure, you investigate the Al Capones of this country and you will get some alarming statistics. I don't like Al Capone or his modern day successors any more than the President or you do.

But the President is the great communicator, and the great communicator mistakenly left the impression with the American people nationwide that there is a 57-percent violation rate amongst grocery stores.

OK, thank you very much. There is no need to send down a nonexistent report. I take as given these are the best documents you have on this subject matter, and you have no other report or memo, no other study in your file over and above these three green sheets.

COMPLIANCE ACTIVITIES

Mr. BODE. May I add that several pages of our recently released, in early February, report on fraud, waste, and abuse in the nutrition assistance program includes a section on our compliance activities, and we will send another copy of that to you.

Senator EAGLETON. Send that to me. We will make it a part of the record.

Thank you very much.

[The information from the report on fraud, waste, and abuse follows:]

Following is an excerpt from the "Management Information Report on Fraud, Waste, Error and Abuse in the Domestic Food Assistance Programs." This section -- pages 61 through 69 -- contains data pertaining to retailer investigations.

3. Agency Investigations

The Compliance Branch (CB), FNS became operational in January 1977, when it was determined that due to staff limitations and other priorities the Department's OIG was not able to meet the retailer investigative needs of the FSP. OIG delegated the authority to FNS to conduct retailer compliance investigations by means of a Statement of Determinations (copy is noted in the Appendix). This statement defines the parameters within which CB must operate. The creation of the CB enabled OIG to concentrate its effort on felony-level food stamp trafficking operations.

The Compliance Branch consists of investigators who check on retailers and wholesalers adherence to the food stamp regulations. The most common type of violation is the illegal acceptance of food coupons for nonfood items. Most investigations are initiated as a result of individual complaints or referrals. The referrals are generated by FNS by making a computer match of food stamp redemptions to actual food sales for each retail store. If the store shows a high ratio of redemptions to food sales compared to the similar stores in the same area, FNS field office personnel will visit the store to see whether or not there appears to be legitimate reasons for the store having a high ratio of food stamp business. If it is suspected that violations are occurring the store is warned of the suspicions. If subsequent monitoring by the field office personnel does not indicate the store will voluntarily comply with the regulations, the matter is referred to the Compliance Branch for investigation.

When the CB was formed, it was restricted to investigating only firms authorized to accept food stamps, and was not permitted to engage in transactions involving the exchange of cash for stamps at a discount unless initiated by the retailer. Since 1979, the CB has been allowed to investigate unauthorized firms and to initiate food stamp discounting transactions in certain restricted situations. However, the CB is still restricted from engaging in any felony-level violations.

The investigative techniques utilized by the CB are modeled after those used by OIG. Investigators, or local aids hired and trained by the investigators, conduct

TABLE 14

State Agency Fraud Control Data for Fiscal Year 1981

STATE	Fraud Hearings: Agency Decisions	Fraud Hearings: Previous Disqualified	Investigations: Cases	Investigations: Money Involved	Prosecutions: Cases	Prosecutions: Money Involved
NEW ENGLAND	-----------Number	----------	----------	Dollars	Number	Dollar
Connecticut	N/A 1/	N/A	281	$ 147,751	56	$ 43,000
Maine	25	25	N/A	N/A	N/A	N/A
Massachusetts	0	0	832	778,565	419	531,795
New Hampshire	N/A	N/A	13	14,360	12	14,360
Rhode Island	133	0	228	73,976	6	10,600
Vermont	2/					
	158	25	1,354	1,014,652	493	649,755
MID-ATLANTIC						
Delaware	17	17	N/A	N/A	N/A	N/A
District of Columbia	2/					
Maryland	N/A	N/A	50	92,109	17	43,630
New Jersey	226	78	446	65,525	93	60,543
New York	24	N/A	N/A	N/A	N/A	N/A
Pennsylvania	1	1	32	42,175	97	81,692
Puerto Rico	2,280	1,917	37	144,124	32	60,486
Virginia	0	0	1,303	419,663	722	340,211
Virgin Islands	2/					
West Virginia	8	9	351	560,196	19	103,802
	4,685	2,022	2,219	1,323,793	980	690,394
SOUTHEAST						
Alabama	167	167	225	631,881	179	122,121
Florida	33	42	N/A	N/A	2,320	1,567,574
Georgia	12	12	2,677	1,073,215	378	1,076,676
Kentucky	521	214	435	132,506	122	148,196
Mississippi	218	203	1,013	617,930	275	233,679
North Carolina	579	488	N/A	N/A	151	110,083
South Carolina	100	100	700	N/A	128	295,872
Tennessee	290	293	273	417,465	100	151,124
	1,920	1,519	5,353	2,872,997	3,653	3,715,325
MIDWEST						
Illinois	7	6	10	7,890	N/A	N/A
Indiana	30	34	N/A	N/A	59	N/A
Michigan	49	49	108	N/A	27	155,738
Minnesota	0	0	53	N/A	4	3,434
Ohio	5	5	N/A	N/A	814	800,869
Wisconsin	0	0	810	N/A	26	N/A
	91	94	981	7,890	930	960,041
SOUTHWEST						
Arkansas	7	7	300	N/A	300	N/A
Louisiana	217	216	788	725,950	136	328,987
New Mexico	2	0	346	176,242	32	18,173
Oklahoma	0	0	162	260,913	27	31,690
Texas	0	0	6,895 3/	1,310,699	N/A	N/A
	226	223	8,491	2,473,804	495	378,850
MOUNTAIN PLAINS						
Colorado	81	88	N/A	N/A	N/A	N/A
Iowa	46	N/A	N/A	N/A	54	33,381
Kansas	80	80	N/A	N/A	N/A	N/A
Missouri	N/A	N/A	2,424	1,593,894	N/A	N/A
Montana	0	0	70	31,601	30	17,684
Nebraska	N/A	N/A	130	N/A	N/A	N/A
North Dakota	1	2	N/A	N/A	N/A	N/A
South Dakota	17	17	37	40,415	1	1,749
Utah	N/A	N/A	N/A	N/A	N/A	N/A
Wyoming	2/					
	225	187	2,661	1,665,910	85	52,814
WESTERN						
Alaska	N/A	N/A	162	98,886	2	5,344
American Samoa	2/					
Arizona	137	0	712	452,595	47	54,350
California	3	6	4,461	618,044	109	335,387
Guam	2/					
Hawaii	N/A	N/A	87	70,313	20	58,187
Idaho	14	15	62	20,693	6	3,749
Nevada	177	N/A	32	45,879	21	33,305
Oregon	8	4	5,069	288,399	268	94,427
Trust Territory	2/					
Washington	508	N/A	317	48,501	2	N/A
	847	25	10,902	1,643,310	475	584,749
TOTAL	8,142	4,195	31,951	$10,995,356	7,111	7,031,928

1/Data not available or not reported on FNS-366 (Part B).
2/No data for Fiscal Year 1981 submitted to FNS.
3/Data obtained from Texas Division of Investigations.

covert shopping transactions at firms suspected of violations. The investigator or aide attempts to purchase both eligible merchandise, and/or in some instances, attempts to determine whether the firm discounts food stamps. Care is exercised to avoid entrapment. A number of shopping transactions are conducted in order to determine whether it is normal practice of a store to violate. The investigative results are reported to the appropriate FNS Regional Office, which makes the decision on whether administrative sanction should be taken. In instances where food stamp discounting occurs or other evidence of probable felony-level violations are obtained during the CB investigation, the investigative results are referred to OIG for consideration of escalation into a criminal investigation. CB investigators have recently become actively involved in a number of these criminal escalations of cases they initiated, under the supervision of OIG agents.

The data in table 15 indicate that about 20,000 store investigations or cases were initiated by the Compliance Branch during Fiscal Year 1977 through Fiscal Year 1981. Of this total, about 12,000 cases or 59 percent of all investigations contained evidence of FSP violations. Approximately 8,000 cases contained evidence of violations serious enough to warrant possible store disqualification. OIG was forwarded about 4,350 cases for consideration of escalation into criminal investigations. Of the referred cases, about 630 were accepted by OIG for escalation. These cases usually indicated the probability of FSP violations at the felony-level. Approximately 600 stores or 7 percent of the 8,000 stores with evidence of serious violations, were involved in the trafficking of food stamps. It is probable the number of stores found to be discounting food stamps would have been higher, but provisions in the OIG/FNS Statement of Deteminiations restrict the CB from being able to fully develop all of its cases.

The number of investigations conducted during the first year (Fiscal Year 1977) the CB began operation was about 2,400 and about 4,200-4,700 in each of the other Fiscal Years. The percentage of cases containing violations, warranting disqualification and accepted by OIG for escalation remained fairly constant during each of the Fiscal Years 1978-81. The number of investigations involving the trafficking of food stamps has increased every year. However, these investigations only accounted for about 3 percent (587/20,043) of all cases handled by the Compliance Branch in Fiscal Year 1981.

TABLE 15

Store investigations conducted by the Compliance Branch, FNS for Fiscal Years 1977-81

FISCAL YEAR	Cases or Investigations	Evidence of Violations	Warrant Possible Disqualification	Trafficking Food Stamps	Sent To OIG for Escalation	Accepted By OIG for Escalation
	-----------------	-----------------	Number	-----------------	-----------------	-----------------
1977	2,370	1,220	896	17	900	40
1978	4,449	2,657	1,436	94	1,920	143
1979	4,203	2,659	1,796	108	1,074	171
1980	4,292	2,544	1,605	169	220 1/	156
1981	4,729	2,718	1,754	199	237	124
TOTAL	20,043	11,798	7,987	587	4,351	634

1/Prior to April 1979, all CB investigations containing evidence of 3 or more violative transactions of any type were transferred to OIG for escalation. Since April 1979, only those cases involving food stamp discounting or other evidence of probable felony level violations are referred to OIG. Thus, most of those referred to OIG in the last several years have been accepted.

The data in table 16 indicate that of 6,643 store disqualifications, 1,221 were for 6 months and 3,770 for one year. The average number of store disqualifications has averaged between 1,200 and 1,700 annually over the past four years.

In addition to FSP investigations, CB has done some limited investigations of vendors in the Special Supplemental Food Program for Infants and Children (WIC). At the request of the FNS Southeast Regional Office, in Fiscal Year 1980 CB conducted a special operation involving 51 vendors in Florida. The positive results of this work (46 of the 51 vendors committed some type of violation) were used by the Regional Office to impress upon Florida officials the magnitude of WIC vendor problem. As a result, Florida set up its own permanent WIC investigation unit which has since conducted ongoing vendor investigations. The CB also participated in the OIG National WIC Special Impact Audit, during which they (CB) conducted all of the vendor investigations. One hundred eleven vendor investigations resulted in 273 violations being disclosed. OIG, in their audit, recommended that the CB conduct WIC vendor investigations on vendors which they also conduct FSP investigations.

In addition to actual investigations, the CB has provided technical assistance (in the form of training in compliance investigations) to numerous WIC State agencies and in two national WIC State Program Director meetings.

Summary

The above analysis indicates the importance of work being conducted by the Compliance Branch in combating fraud and abuse in food stores operating under the FSP. Since there are about 240,000 stores participating in the Program, the data indicate that only about 2,700 (one percent) have shown evidence of violating FSP regulations. However, part of this is due to limitation of the number of store investigations the CB can carry out each year. Of the 1,750 stores that warranted disqualification, about 1,500 (85 percent) were actually disqualified during Fiscal Year 1981. Moreover, about 1,126 of these stores (75 percent) were disqualified for 6 months or more. Moreover, these types of disqualifications are reserved for cases where the evidence indicates it is the operating policy of the store to violate FSP regulations.

Recommendations

o Within current priority and resource restrictions faced by the Agency, every effort should be made to increase the size and resources of the Compliance Branch to combat fraud, waste and abuse by stores participating in the FSP.

- o Explore the possibility of having OIG relax the restrictions noted in the Statement of Determinations. This would permit the CB to more fully develop the scope of their administrative cases, save the Department money since there would be less need in many cases for OIG to have to escalate cases already started by the CB, insure quicker investigations (and therefore more positive results) on felony level retailer cases, and provide FNS a truer picture of the actual scope of retailer violations.

TABLE 16

Number of authorized food firms disqualified as the result of investigations conducted by the Compliance Branch, FNS for Fiscal Years 1977-81

Period of Disqualification	FISCAL YEARS					TOTAL
	1977	1978	1979	1980	1981	
	----------Number----------					
30 days	22	55	85	115	100	377
60 days	54	123	188	228	237	830
90 days	24	32	37	29	28	146
6 months	121	205	351	304	240	1,221
1 year	191	747	990	957	815	3,700
3 years	7	20	28	30	71	156
Other	1	3	8	15	6	33
TOTAL	420	1,185	1,687	1,678	1,497	6,463

- o Explore the feasibility of having the Compliance Branch conduct investigative operations with WIC vendors in selected States, similar to the Florida operation discussed earlier. The purpose of these investigations would not be to abrogate State responsibility in this area, but instead to provide the FNS Regional Offices with management data they can use to impress upon the selected States the magnitude of the WIC vendor problem, with the aid of convincing the State to form its own WIC investigative unit (or bolster or modify it if there is one). This limited use of CB as a prodding device would hopefully result in ongoing State-conducted WIC vendor investigations nationwide.

SUBCOMMITTEE RECESS

Senator EAGLETON. The subcommittee will now stand in recess.

[Whereupon, at 12 noon, Thursday, April 1, the subcommittee recessed, to reconvene at the call of the Chair.]

AGRICULTURE, RURAL DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1983

TUESDAY, APRIL 13, 1982

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, D.C.

The subcommittee met at 10 a.m., in room 1318, Everett McKinley Dirksen Senate Office Building, Hon. Thad Cochran (chairman) presiding.

Present: Senator Cochran.

COMMODITY FUTURES TRADING COMMISSION

STATEMENT OF PHILIP McBRIDE JOHNSON, CHAIRMAN, COMMODITY FUTURES TRADING COMMISSION

ACCOMPANIED BY:

JAMES STONE, COMMISSIONER
SUSAN PHILLIPS, COMMISSIONER
SUSAN WAGNER, EXECUTIVE DIRECTOR
G. HUNTINGTON BANISTER, DIRECTOR, OPERATIONS AND BUDGET

INTRODUCTION OF WITNESSES

Senator COCHRAN. The subcommittee will please come to order. This morning marks the subcommittee's final hearing for witnesses from the executive branch on behalf of the administration's 1983 budget requests. We welcome, this morning, representatives from the Commodity Futures Trading Commission to the subcommittee and apologize for having to reschedule your hearing.

ACTIVITIES OF COMMISSION

The Commodity Futures Trading Commission administers the Commodity Exchange Act, as amended. The Commission is responsible for furthering the economic utility of futures markets by safeguarding their integrity and by promoting their efficiency. It accomplishes these objectives through its four major program activities: market surveillance; research and education; registration, audits and contract markets; and enforcement.

We hear from the Commission at an interesting time. We know you are in the midst of reauthorization. Certainly, the outcome of that process will bear on the Commission's fiscal year 1983 budget needs. Consequently, the subcommittee will be monitoring the reauthorization of the Commodity Futures Trading Commission very carefully.

PREPARED STATEMENT

We are pleased to welcome, this morning, the Chairman of the Commission, Philip McBride Johnson. We have your prepared statement, and we will make that a part of the record in full.

[The statement follows:]

TESTIMONY OF PHILIP McBRIDE JOHNSON
CHAIRMAN, COMMODITY FUTURES TRADING COMMISSION

APRIL 1, 1982

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

I AM HERE TODAY TO DISCUSS WHAT HAS BECOME A DELICATE SUBJECT IN THESE AUSTERE TIMES: THE BUDGET. BOTH THE CONGRESS AND THE COMMISSION ARE IN THE DIFFICULT POSITION OF TRYING TO BALANCE THE NEED TO STIMULATE A VIGOROUS ECONOMY AGAINST THE NECESSITY OF BUDGETARY RESTRAINT.

THE COMMISSION IS REQUESTING A BUDGET OF $22,999,000 FOR FISCAL YEAR 1983. THIS REPRESENTS AN INCREASE OF $2,187,000 OVER THE FISCAL YEAR 1982 APPROPRIATION, PLUS A PAY SUPPLEMENTAL OF $888,000. THE REQUESTED INCREASE INCLUDES $1,231,000 TO ALLOW THE COMMISSION TO FUND 510 FULL TIME STAFF POSITIONS, AN INCREASE OF 40 STAFF POSITIONS OVER 1982. THE REQUEST ALSO INCLUDES $956,000 TO MEET ANTICIPATED INCREASES IN OPERATING COSTS.

OUR BUDGET REFLECTS THE DESIRE OF THE COMMISSION (A) TO INSURE A CREDIBLE ENFORCEMENT AND SURVEILLANCE CAPABILITY THAT MAINTAINS STABILITY IN THE MARKETPLACE WITHOUT COSTLY LAYERS OF REGULATION; (B) TO STREAMLINE THE INTERNAL PROCESSES BY WHICH WE PROVIDE SERVICES TO THE PUBLIC AND THE INDUSTRY; AND (C) TO KEEP PACE WITH A RAPIDLY EXPANDING INDUSTRY. CONSEQUENTLY, WE ARE REQUESTING OUR LARGEST INCREASES IN THE AREAS OF MARKET SURVEILLANCE, ENFORCEMENT, AND AUTOMATED DATA PROCESSING. I WOULD LIKE TO BRIEFLY REVIEW THE ACTIONS WHICH WE HAVE TAKEN TO IMPROVE AGENCY FUNCTIONS, AND I WOULD LIKE TO OUTLINE PROPOSALS WHICH WE FEEL ARE ESSENTIAL FOR THE COMMISSION TO FUNCTION EFFICIENTLY.

ACTIONS IN ENFORCEMENT

DURING FISCAL YEAR 1981, THE COMMISSION ASSESSED THE LARGEST CIVIL MONEY PENALTY IN ITS HISTORY, A $500,000 FINE AGAINST RESPONDENTS WHO VIOLATED SPECULATIVE POSITION LIMITS IN SOYBEAN FUTURES. AND THE LARGEST MONEY PENALTY EVER ASSESSED AGAINST AN EXCHANGE--$200,000--ALSO OCCURRED. ALL IN ALL DURING THE YEAR, LITIGATION

BY THE COMMISSION ASSESSED APPROXIMATELY $2 MILLION IN PENALTIES FOR THE U. S. TREASURY, AN AMOUNT ABOUT EQUAL TO THE COMMISSION'S LITIGATION BUDGET. IN ADDITION, FY 1981 SAW THE FIRST JOINT ACTION BETWEEN THE CFTC AND THE SEC, AND ALSO JOINT ACTIONS WITH SEVERAL STATES. LAST YEAR, THE COMMISSION WROTE TO ALL STATE ATTORNEYS GENERAL, URGING THEM TO BECOME INVOLVED IN FRAUD ACTIONS AGAINST THOSE SELLING "OFF-EXCHANGE" INSTRUMENTS. TO ASSIST THE STATES IN THEIR EFFORTS, THE COMMISSION PUBLISHED A "SPOTTER'S GUIDE" TO HELP IDENTIFY "BOILER ROOM" COMMODITY FRAUD OPERATIONS AND THE COMMISSION IS NOW ENGAGED IN A TRAINING PROGRAM FOR THE FBI ON COMMODITIES FRAUD.

IN THE REAUTHORIZATION BILL WHICH IS NOW BEFORE CONGRESS, THE COMMISSION HAS PROPOSED TO FURTHER EXPAND THE ROLE OF FEDERAL AND STATE AGENCIES IN THE CAMPAIGN AGAINST SCAMS INVOLVING OFF-EXCHANGE INSTRUMENTS OR PERSONS WHO ELECT TO IGNORE THE COMMISSION'S DESIGNATION OR REGISTRATION REQUIREMENTS. UNDER THIS "OPEN SEASON" PROVISION, EVERY FEDERAL AND STATE LAW ENFORCEMENT AGENCY WOULD BE FREE TO ATTACK THESE OPERATIONS--IN STRATEGIC METALS, DIAMONDS, COAL OR OTHER ITEMS--UNDER ANY LAW OR REGULATION AVAILABLE TO THEM. THE PROPOSED BILL WOULD ALSO ALLOW THE CFTC TO SHARE CONFIDENTIAL INFORMATION WITH STATES FOR LAW ENFORCEMENT PURPOSES. THE CFTC HAS ALSO PROPOSED AN AMENDMENT TO MAKE INDIVIDUALS MORE ACCOUNTABLE FOR VIOLATIONS OF THE LAW BY THEIR FIRMS. THESE PROVISIONS WILL FOSTER MORE EFFICIENT ENFORCEMENT AND WILL SHIFT SOME OF THE ENFORCEMENT BURDEN FROM THE CFTC TO OTHER AGENCIES.

HOWEVER, THE CFTC'S ENFORCEMENT PROGRAM WILL HAVE PLENTY LEFT TO DO. WE ARE REQUESTING AN INCREASE OF $529,000, WHICH INCLUDES FUNDING FOR 10 NEW ENFORCEMENT STAFF POSITIONS. THIS INCREASE IS ESSENTIAL TO THE COMMISSION'S ABILITY TO MAINTAIN A CREDIBLE LEVEL OF ENFORCEMENT ACTIVITIES IN CURRENT PROGRAMS, TO KEEP PACE WITH THE INDUSTRY'S RAPID EXPANSION, AND TO MONITOR NEW PROJECTS, SUCH AS THE PILOT OPTIONS PROGRAM. THE TREMENDOUS GROWTH OF THE INDUSTRY, WHICH HAS NEARLY TRIPLED IN THE PAST FIVE YEARS, ADDS TO BOTH THE NUMBER AND COMPLEXITY OF CASES THAT WILL REACH OUR ENFORCEMENT DIVISION. IN ADDITION, GROWTH WITHIN CERTAIN INDUSTRY GROUPS, SUCH AS COMMODITY POOLS, HAS BEEN DRAMATIC.

DURING PERIODS OF FISCAL AUSTERITY, A STRONG ENFORCEMENT PROGRAM IS CRUCIAL TO PROVIDING A MORE EFFECTIVE ALTERNATIVE TO COSTLY

RULEMAKING. IT IS OUR PURPOSE IN THIS EFFORT TO FOCUS ON THE WRONGDOERS AND LEAVE THE HONEST CITIZENS ALONE.

DAILY MARKET SURVEILLANCE: MARKET SURVEILLANCE IS ALSO A KEY FACTOR IN EFFICIENT REGULATION OF THE COMMODITIES INDUSTRY. THE OBJECTIVE OF CONTINUOUS, DAY-TO-DAY MARKET SURVEILLANCE IS PREVENTION OF MARKET DISRUPTIONS BEFORE THEY OCCUR AND, AS SUCH, IS A GREAT SOURCE OF LONG-TERM SAVINGS FOR THE COMMISSION. DURING FY 1981, DAILY MARKET SURVEILLANCE IMPROVED ITS EFFICIENCY IN A NUMBER OF WAYS, INCLUDING SIMPLIFICATION OF THE LARGE TRADER REPORTING SYSTEM WHICH REDUCED PAPERWORK BY ROUGHLY 375,000 DOCUMENTS A YEAR. IN ADDITION, THE COMMISSION PUT NEW SPECULATIVE LIMITS INTO EFFECT WHICH SHOULD HELP REDUCE THE LIKELIHOOD OF A MAJOR MARKET DISRUPTION. MARKET SURVEILLANCE AND ADP STAFF HAVE PLANNED IMPROVEMENTS WHICH WILL MAKE DATA GATHERING AND ANALYSIS QUICKER AND EASIER.

THE COMMISSION IS REQUESTING AN INCREASE OF $280,000 IN DAILY MARKET SURVEILLANCE, WHICH WILL ALLOW US TO HIRE 5 ADDITIONAL STAFF PEOPLE AND COVER INCREASED EXPENSES. THE COMMISSION IS ALSO REQUESTING FUNDS FOR HIRING 8 ADDITIONAL ADP STAFF MEMBERS, WHICH WILL ALLOW US TO VASTLY IMPROVE THE TECHNICAL SIDE OF OUR MARKET SURVEILLANCE PROGRAM. THIS INCREASE WILL ALLOW THE STAFF TO IMPROVE THE SURVEY AND ANALYSIS OF THE GROWING NUMBER OF FUTURES CONTRACTS--PROJECTED TO REACH 117 BY FY 1983. IN ADDITION, THE INCREASED STAFF LEVEL WILL PERMIT THE COMMISSION TO MAINTAIN SOME CONTRACT SPECIALIZATION AMONG ITS STAFF ECONOMISTS--A NECESSITY IN COVERING AN INDUSTRY WHICH TRADES FUTURES CONTRACTS IN SUCH DIVERSE COMMODITIES AS SOYBEANS, GASOLINE AND GOVERNMENT SECURITIES. IN OTHER WORDS, THE REQUESTED INCREASE IS ESSENTIAL TO THE CFTC'S ABILITY TO MAINTAIN A CREDIBLE AND EFFECTIVE MARKET SURVEILLANCE SYSTEM.

AUTOMATED DATA PROCESSING. WE ARE REQUESTING AN ADDITIONAL $272,000, FOR ADP IMPROVEMENT. OUR AGENCY HAS AN INTENSE NEED FOR RELIABLE, UP-TO-DATE INFORMATION. THE COMMISSION'S ASSESSMENT AND THAT OF BOTH OMB AND GAO IS THAT IMPROVED ADP SERVICES ARE CRITICAL TO THE COMMISSION'S ABILITY TO CARRY OUT ITS FUNCTIONS AND TO CARRY THEM OUT WITH LIMITED RESOURCES.

THE CFTC HAS BEEN OPERATING WITH OUTDATED ADP TECHNOLOGY WHICH WE INHERITED FROM THE DEPARTMENT OF AGRICULTURE. THE SYSTEM, WITH ITS 12-YEAR-OLD SOFTWARE AND BATCH PROCESSING, HAS BEEN PATCHED together for too many years. Problems in the computer system have slowed progress in almost every facet of the Commission's responsibilties: surveillance of the market, processing and tracking of registrants, analysis of enforcement cases, servicing of reparations cases, etc.

The CFTC has made many improvements in the ADP Section, including the hiring of a new ADP Director and the development of an interagency agreement with EPA for the use of their computer facilities. We are currently performing a comprehensive ADP study to determine how all of our requirements can best be met. However, we simply will not be able to implement the recommendations of that study or to meet our increasing needs for ADP without adequate resources and staffing. Many of the internal management improvements which will keep our staffing needs down in other areas of the Commission depend upon the existence of adequate ADP capability.

Contract Markets and Market Analysis: The Commission has substantially increased the speed with which it approves contracts. During the first six months of calendar year 1981, only two contract markets were designated. From July to December, 20 contracts were approved by the Commission. This improvement was due to a combination of internal actions and an absence of serious external diversions.

Another step which will aid the Commission in acting on new contract applications during FY 1982 is the recent agreement between the CFTC and the SEC which more clearly defines the two agencies' roles. The Commission is currently asking the Congress to codify this jurisdictional accord as part of the reauthorization bill.

The reauthorization bill also contains a provision which would streamline the process of exchange rule review. Under the simplified version of 5a(12), only limited classes of important exchange rules would require the Commission's advance review and approval. Other rules could be implemented shortly after filing with the Commission. If this improvement is enacted, significant savings will be realized within the Commission unit that currently must screen a far larger number of rules.

We are requesting an increase of $120,000 for our market

ANALYSIS PROGRAM AND $131,000 FOR OUR CONTRACT MARKETS PROGRAM, WHICH WILL ALLOW US TO COVER BUILT-IN RISING EXPENSES AND TO HIRE TWO ADDITIONAL STAFF PEOPLE IN EACH PROGRAM. THESE ADDITIONS PRIMARILY REFLECT THE GROWTH IN THE MARKETS WHICH IS EXPECTED TO INCREASE THE WORKLOAD OF THE COMMISSION, DESPITE THE SAVINGS THAT CAN BE REALIZED FROM EXISTING OR PROPOSED IMPROVEMENTS. THE FUNCTIONS THAT THESE UNITS PERFORM ARE EXTREMELY IMPORTANT TO THE COMMISSION'S COMMITMENT TO ENCOURAGE RATHER THAN RETARD THE ORDERLY GROWTH OF THE COMMODITIES INDUSTRY. THE REQUESTED AMOUNTS ARE THE ABSOLUTE MINIMUM NECESSARY TO ENABLE THE COMMISSION TO KEEP PACE AT A TIME WHEN THE DEVELOPMENT OF NEW MARKET INSTRUMENTS USED FOR RISK SHIFTING PURPOSES ARE ESSENTIAL TO THE ECONOMY.

ADMINISTRATIVE LAW: THE ADMINISTRATIVE LAW SECTION HAS HAD A PARTICULARLY DIFFICULT TIME KEEPING PACE WITH THE INDUSTRY. OVER 4,000 REPARATIONS CASES HAVE BEEN FILED SINCE THE COMMISSION WAS FORMED. THROUGH REORGANIZATION OF THE HEARING CLERK'S OFFICE AND A NUMBER OF OTHER INTERNAL CHANGES, WE HAVE BEEN ABLE TO SPEED UP OUR CONSIDERATION OF THESE CASES. HOWEVER, BECAUSE OF THE GROWTH IN THE INDUSTRY, OUR BACKLOG OF REPARATIONS CASES CONTINUES TO GROW.

WE ARE CURRENTLY TAKING STEPS TO SIMPLIFY THE REPARATIONS PROCESS AND TO ENCOURAGE THE USE OF PRIVATE ARBITRATION BY CUSTOMERS. MANY OF THE PROPOSALS IN OUR REAUTHORIZATION BILL WOULD STREAMLINE THE REPARATIONS PROGRAM. UNDER THE PROPOSED AMENDMENTS, THE COMMISSION WOULD NO LONGER HEAR CASES AGAINST NONREGISTRANTS, MANY OF WHOM ARE BANKRUPT OR HAVE DISAPPEARED. THE COMMISSION IS ALSO SEEKING AUTHORITY TO REDESIGN THE REPARATIONS PROCESS BY RULEMAKING SO THAT IT CAN BECOME THE SIMPLE, SPEEDY, AND INEXPENSIVE PROGRAM THAT CONGRESS ENVISIONED. THE COMMISSION IS ALSO CONSIDERING AMENDMENTS TO OUR REGULATION 180.3 TO ALLOW BINDING ARBITRATION AGREEMENTS TO SUPERSEDE REPARATIONS WHEN BOTH THE FIRM AND THE CUSTOMER VOLUNTARILY CHOOSE THAT COURSE.

ALL OF THESE PROPOSALS, IF APPROVED, WILL HELP ALLEVIATE THE BURDENS ON THE ADMINISTRATIVE LAW PROGRAM. HOWEVER, BECAUSE THE NUMBER OF REPARATIONS CASES AND ENFORCEMENT CASES WILL CONTINUE TO GROW AS TRADING VOLUME INCREASES, WE ARE REQUESTING AN ADDITIONAL $96,000 TO COVER EXPENSES AS WELL AS THE HIRING OF

ONE ADDITIONAL COMPLAINTS STAFF PERSON AND A FIFTH ADMINISTRATIVE LAW JUDGE. WE BELIEVE THIS IS ESSENTIAL IF THE COMMISSION IS TO MEET ITS STATUTORY OBLIGATION TO THE PUBLIC.

REGISTRATION: BECAUSE OF PROPOSED INTERNAL IMPROVEMENTS, AND BECAUSE WE HOPE THAT THE NATIONAL FUTURES ASSOCIATION WILL SOON TAKE OVER SOME REGISTRATION FUNCTIONS, WE ARE NOT REQUESTING AN INCREASE IN PERSONNEL FOR THE REGISTRATION PROGRAM, MERELY AN INCREASE OF $38,000 TO COVER ADDED EXPENSES. HOWEVER, I DID WANT TO MENTION THAT EFFECTIVE JULY 1, 1982, ASSOCIATED PERSONS OF FCM'S AND ALL CATEGORIES OF INDIVIDUAL REGISTRANTS AND PRINCIPALS OF REGISTRANTS WILL BE REQUIRED TO SUBMIT THEIR FINGERPRINTS WITH EACH APPLICATION FOR REGISTRATION. THE COMMISSION IS ALSO CONSIDERING A PROPOSAL TO REGISTER THE EMPLOYEES OF CPO'S AND CTA'S. THESE ACTIONS WILL ALLOW THE COMMISSION TO SCREEN THE INDUSTRY MORE THOROUGHLY FOR UNFIT PERSONS.

THE COMMISSION HAS ALSO MADE CERTAIN PROPOSALS IN ITS REGISTRATION PACKAGE WHICH WILL IMPROVE THE REGISTRATION PROCESS. THE COMMISSION PROPOSES THAT THE DEFINITION OF A CTA BE NARROWED SO THAT MOST FIRMS AND INDIVIDUALS WOULD NOT HAVE TO REGISTER IF THEIR ADVICE IS LIMITED TO CASH COMMODITIES. IN ADDITION, TEMPORARY LICENSES COULD BE GRANTED TO CERTAIN APPLICANTS FOR REGISTRATION, SO THAT THEY COULD BEGIN WORK BEFORE THE FULL REGISTRATION PROCESS IS COMPLETED. THE OVERALL REGISTRATION PROGRAM WOULD BE ACCELERATED BY CREATING A SIMPLE AND QUICK WAY TO DISPOSE OF APPLICANTS WHO ARE CLEARLY UNFIT TO ENTER THE INDUSTRY.

THE COMMISSION IS ONLY REQUESTING INCREASES TO COVER EXPENSES IN THE AREAS OF AGENCY DIRECTION, MARKET RESEARCH, AND EDUCATION. IN THE LEGAL COUNSEL, AUDIT AND FINANCIAL REVIEW, AND CENTRALIZED ADMINISTRATION PROGRAMS, THE COMMISSION IS REQUESTING ONLY ENOUGH ADDITIONAL RESOURCES TO INSURE THAT THE BACKLOG OF WORK DOES NOT INCREASE. I SHOULD ADD HERE THAT THE COMMISSION IS ONLY ABLE TO ACCOMPLISH AS MUCH AS IT DOES WITH SCARCE RESOURCES BECAUSE OF THE EXCELLENT MANAGEMENT OF FORMER CHAIRMEN SEEVERS AND STONE AND BECAUSE OF THE WILLINGNESS OF THE STAFF TO DO WHATEVER IT TAKES TO GET THE JOB DONE. I HAVE FOUND THE COMMISSION'S STAFF EQUAL IN DEDICATION AND PROFESSIONAL SKILL TO ANY I HAVE ENCOUNTERED IN THE PRIVATE SECTOR.

But even the best staff, working under the best conditions cannot remain static and expect to keep up with the rapidly growing commodity industry. In the past five years, futures volume has nearly tripled from 37 million contracts to about 100 million contracts. The number of different contracts has grown steadily, including about 20 new offerings in this year alone. The FCM community has increased by 81 firms, or 27%; commodity pools have grown by over 100% from 408 to 827; there are now 1,735 trading advisors, up almost 300%; and 44,000 salesmen, an increase of 75%.

During those same 5 years, the exchanges have grown as well. The New York Futures Exchange and the New Orleans Commodity Exchange have come into existence. The Chicago Board of Trade, which spent $8.6 million on its operations in 1976, spent $17.6 million in 1980. At the Chicago Mercantile Exchange, expenses have risen from $7 million to $26 million over the same period. And, at the Comex, $2.1 million were spent 5 years ago, and $9.1 million were spent last year. To meet volume growth, total membership (including limited privileges) at the Chicago Board of Trade rose from 1,402 members in 1975 to 2,096 members today. That same exchange is more than doubling the size of its trading floor from 23,000 to 51,000 square feet, and has added 500,000 square feet of new office space to accommodate its growth. The Chicago Mercantile Exchange is also in the process of a major expansion, while four of the New York markets have moved into the World Trade Center as part of their growth plan.

Meanwhile, what has happened at the Commission over the same 5 years? When inflation is factored in, we have less spending power today than we had in 1976. During the same period our staff has increased by an average of only 1% per year. If there ever was "fat" in the Commission, this 5-year fast has certainly burnt it off.

In addition to our streamlining efforts, the Commission has taken two steps to offset the cost of regulating this growing industry. First, we have recommended that Congress establish a statutory system of transaction fees. Under the proposal which is included in the Commission's reauthorization proposal, a fee of 6 cents per side would be assessed for each futures contract and each exchange-traded option executed for a member of that

EXCHANGE OR FOR A MEMBER OF THE NATIONAL FUTURES ASSOCIATION. A FEE OF 12 CENTS PER SIDE WOULD BE CHARGED IF THE TRADER DOES NOT BELONG TO THE RELEVANT EXCHANGE OR THE NFA. IN ADDITION, A FLAT CHARGE OF 3 DOLLARS WOULD BE ASSESSED TO DEALER OPTION GRANTORS AND LEVERAGE CONTRACT VENDORS FOR EACH OPTION OR LEVERAGE CONTRACT MARKETED. THE FEES COLLECTED BY THE EXCHANGES WOULD GO DIRECTLY TO THE U. S. TREASURY.

THE COMMISSION IS ASKING FOR THE RIGHT TO REDUCE, SUSPEND, OR WAIVE ANY PART OF THE FEE IF IT APPEARS TO BE ACTUALLY HARMING IMPORTANT MARKET FUNCTIONS, SUCH AS MARKET LIQUIDITY OR HEDGING. WE ARE ALSO RECOMMENDING THE CREATION OF A NEW ADVISORY COMMITTEE CONSISTING OF PERSONS WHO WILL BE IMPACTED BY THE FEES, TO SERVE AS A "LIGHTENING ROD" FOR DETECTING POSSIBLE ADVERSE EFFECTS OF THE FEE, AND TO REPORT TO THE CONGRESS AFTER ABOUT TWO FULL YEARS OF THE PROGRAM WHETHER THE FEES ARE WORKING WELL, OR ARE EVEN NECESSARY OR DESIRABLE.

IN ADDITION, THE COMMISSION APPROVED, LAST SEPTEMBER, THE ESTABLISHMENT OF THE NATIONAL FUTURES ASSOCIATION (NFA). BY ITS APPROVAL OF NFA, THE COMMISSION SIGNALED ITS CONTINUED SUPPORT FOR THE CONCEPT OF INDUSTRY-INITIATED, NATIONWIDE SELF-REGULATORY ORGANIZATIONS.

THE NFA WILL BE A VALUABLE SUPPLEMENT TO WHAT BOTH THE EXCHANGES AND THE COMMISSION DO. IN VARIOUS WAYS, IT SHOULD EVENTUALLY RELIEVE SOME BURDENS NOW BORNE BY THE CONTRACT MARKETS AND BY US. AT THE SAME TIME, HOWEVER, I SERIOUSLY DOUBT THAT THERE IS A SINGLE EXCHANGE PLANNING TO CUT ITS BUDGET EVEN IF THE NFA ASSUMES SOME OF THE MARKET'S PRESENT DUTIES. RATHER, I WOULD SUSPECT THAT THE NFA IS SEEN AS A POSSIBLE SOURCE OF RELIEF FROM THE RATE OF GROWTH IN SELF-REGULATORY BURDENS THAT THE EXCHANGES WOULD OTHERWISE FACE AS THE INDUSTRY CONTINUES TO EXPAND IN THE YEARS AHEAD.

THIS IS ALSO MY PERCEPTION OF THE NFA VIS-A-VIS THE COMMISSION. IT WOULD BE FOLLY TO THINK THAT THE COST OF PUBLIC PROTECTION, IN EITHER THE PRIVATE OR PUBLIC SECTOR, HAS PEAKED, WHILE THE INDUSTRY CONTINUES TO ENJOY AN ASTOUNDING RATE OF GROWTH. JUST AS THERE WILL BE MORE BUSINESS FOR THE INDUSTRY, THERE WILL ALSO BE MORE WORK TO DO. HAVING NFA AS A COMPATRIOT WILL HELP BOTH THE EXCHANGES AND THE COMMISSION TO LOWER THEIR SHARE OF THE FUTURE EXPENSE OF

PUBLIC PROTECTION, BUT IT IS NOT LIKELY TO PREVENT SOME INCREASE IN THOSE COSTS. UNLESS, OF COURSE, THE INDUSTRY STOPS GROWING FOR ONE REASON OR ANOTHER. ECONOMIC DEVELOPMENTS MIGHT CAUSE A SLOWDOWN IN INDUSTRY GROWTH, BUT A SLOWDOWN SHOULD NEVER HAPPEN BECAUSE THE COMMISSION CANNOT BEAR THE MINIMUM COSTS OF MEETING ITS RESPONSIBILITY TO THE INDUSTRY AND THE PUBLIC.

I WILL BE HAPPY TO ANSWER ANY QUESTIONS.

APRIL 13, 1982

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

TODAY, THE COMMODITY FUTURES TRADING COMMISSION IS AT A CROSSROADS IN ITS SHORT HISTORY. THE AGENCY IS NOW UNDERGOING ITS SECOND REAUTHORIZATION PROCESS IN THE CONGRESS. THE AGRICULTURE COMMITTEES HAVE LABORED LONG AND WELL TO ASSURE THAT THE COMMISSION HAS THE TOOLS NEEDED TO MEET ITS GROWING RESPONSIBILITIES IN THE YEARS AHEAD. I HAVE EVERY CONFIDENCE THAT THE COMMISSION WILL EMERGE FROM THAT PROCESS BETTER AND STRONGER THAN EVER.

THE BUDGET, OF COURSE, IS THE LUBRICANT THAT MAKES THE COMMISSION WORK. THE GREAT PROMISE OF THE AGENCY HINGES ON HAVING THE RESOURCES TO MOVE AHEAD. THE DELIVERY OF NEEDED SERVICES TO THE PUBLIC AND TO THE ECONOMY DEPENDS UPON ADEQUATE FUNDS, AS DOES THE PROTECTION OF THE PUBLIC AGAINST ABUSIVE PRACTICES. I HAVE COME TO THE COMMISSION AT A TIME WHEN IT IS READY, WILLING AND ABLE TO JOIN THE COMMUNITY OF MATURE FEDERAL AGENCIES.

THE COMMISSION REGULATES AN INDUSTRY EXPERIENCING EXPLOSIVE GROWTH. TRADING VOLUME HAS NEARLY TRIPLED IN THE PAST FIVE YEARS. FUTURES TRADING HAS REACHED BEYOND AGRICULTURE INTO THE HOUSING, ENERGY, MANUFACTURING, AND BANKING INDUSTRIES, AMONG OTHERS. THE NUMBER OF LICENSED EXCHANGES, BROKERAGE FIRMS AND TRADING PROFESSIONALS REGULATED BY THE COMMISSION HAS GROWN TREMENDOUSLY. THE EXCHANGE COMMUNITY HAS KEPT PACE BY INCREASING THEIR BUDGETS AS MUCH AS FOUR-FOLD IN THE LAST 5 YEARS. THE

QUESTION, SIMPLY PUT, IS WHETHER THE COMMISSION CAN BE EQUALLY RESPONSIVE.

THE BUDGET INCREASES RECEIVED BY THE COMMISSION IN EACH OF THE LAST FIVE YEARS HAVE AVERAGED ROUGHLY 4 PERCENT. OUR STAFF HAS GROWN BY A MODEST 1% A YEAR. I MENTION THESE FIGURES SIMPLY TO CONTRAST THE COMMISSION'S ANNUAL RATE OF DEVELOPMENT WITH THAT OF THE INDUSTRY IT REGULATES--WHICH AVERAGED 60% A YEAR--AND EVEN WITH THE RATE OF INFLATION--WHICH HAS EXCEEDED 4%, SOMETIMES DRAMATICALLY, IN EACH OF THE PAST 5 YEARS.

FOR FISCAL YEAR 1983, THE COMMISSION IS ASKING ABOUT AN 10.5% INCREASE OVER THE 1982 BUDGET, OR $22,999,000. IN ADDITION, THE AGENCY SEEKS A SUPPLEMENTAL FY 1982 APPROPRIATION OF $888,000 FOR MANDATORY SALARY INCREASES. WITH THESE ADDED FUNDS, THE COMMISSION WOULD HOPE TO INCREASE ITS STAFF FROM THE PRESENT 470 (A FAIRLY STAGNANT FIGURE SINCE 1977) TO 510, AN 8-1/2% INCREASE. THE LARGEST FUNDING INCREASES WOULD GO TO PROGRAMS THAT, OVER TIME, SHOULD SAVE CONSIDERABLE EXPENSE FOR THE COMMISSION.

FIRST, $280,000 WOULD BE APPLIED TO MARKET SURVEILLANCE, THE COMMISSION'S FIRST LINE OF DEFENSE AGAINST MARKET DISRUPTIONS, AND A FAR CHEAPER PROGRAM THAN AFTER-THE-FACT REMEDIAL ACTION. SECOND, $529,000 WOULD GO TO LAW ENFORCEMENT IN AN EFFORT TO TARGET VIOLATORS INDIVIDUALLY RATHER THAN HAVING TO IMPOSE COSTLY INDUSTRY-WIDE REGULATIONS IN RESPONSE TO PROBLEMS. AND, $272,000 WOULD BE ASSIGNED TO OUR COMPUTER SYSTEM WHICH, AT PRESENT, IS LARGELY A RELIC FROM THE 1960'S.

THE COMMISSION IS WELL AWARE OF THE NEED FOR FISCAL RESTRAINT TODAY. FOR THAT REASON, THE AGENCY IS NOT ASKING FOR ALL OF THE FUNDS NEEDED TO CLOSE THE GAP THAT HAS DEVELOPED OVER THE PAST FIVE YEARS. WE HAVE ALSO PROPOSED TO CONGRESS THAT A NEW USER FEE PROGRAM BE ENACTED TO PROVIDE A COUNTER-WEIGHT TO OUR BUDGET NEEDS, THEREBY REDUCING THE BURDEN OF OUR OPERATIONS ON THE AMERICAN TAXPAYER. THE OFFICE OF MANAGEMENT AND BUDGET HAS MADE CLEAR TO US THAT ADOPTION OF SUCH A USER FEE WILL WEIGH HEAVILY IN ITS DECISION WHETHER TO SUPPORT OUR 1983 REQUEST. AND, MORE

RECENTLY, THE DIRECTOR OF OMB HAS ADVISED THE AGRICULTURE COMMITTEES THAT THE OUTCOME OF THE USER FEE ISSUE WOULD AFFECT EVEN THE ADMINISTRATION'S SUPPORT FOR THE COMMISSION'S REAUTHORIZATION AS A CONTINUING AGENCY. WE WILL CONTINUE TO SUPPORT THE ENACTMENT OF SUCH A FEE AND, WHETHER OR NOT WE SUCCEED, YOU MAY BE ASSURED THAT THE COMMISSION WILL PERFORM RESPONSIBLY WITHIN WHATEVER BUDGET CONSTRAINTS ARE IMPOSED.

SINCE I JOINED THE COMMISSION LAST JUNE, A NUMBER OF IMPORTANT ACTIONS HAVE TAKEN PLACE. WE HAVE PROCESSED 22 NEW FUTURES CONTRACTS; APPROVED THE FORMATION OF THE NATIONAL FUTURES ASSOCIATION AS THE INDUSTRY'S FIRST NATIONWIDE SELF-REGULATORY BODY; DEVELOPED A PILOT PROGRAM FOR EXCHANGE-TRADED COMMODITY OPTIONS; IMPOSED A SYSTEM OF LIMITS ON THE SIZE OF SPECULATORS' HOLDINGS IN THE MARKETS; EMBARKED UPON A CAMPAIGN TO ENLIST THE AID OF OTHER FEDERAL AGENCIES AND STATE LAW ENFORCEMENT OFFICIALS IN ERADICATING VIRULENT CONSUMER FRAUD PERPETRATED BY PHONY COMMODITY INVESTMENT FIRMS; BEGAN A COMPUTER MODERNIZATION PROGRAM, WITH INTERIM USE OF THE EPA'S SOPHISTICATED EQUIPMENT; DESIGNED LEGISLATIVE PROPOSALS TO STRENGTHEN AND STREAMLINE THE COMMISSION'S OPERATIONS; AND RESOLVED AN 8-YEAR DISPUTE WITH THE SEC OVER JURISDICTION. BUILDING ON THE ABLE LEADERSHIP OF MY PREDECESSOR, COMMISSIONER JAMES STONE, AND THE WILLINGNESS OF STAFF TO WORK EVENINGS AND WEEKENDS, THE COMMISSION HAS ACHIEVED A PRODIGIOUS RATE OF PRODUCTIVITY. THE MOMENTUM ALREADY EXISTS, AND OUR BUDGET REQUEST IS DESIGNED TO PRESERVE THAT SAME LEVEL OF ACHIEVEMENT.

AS I INDICATED EARLIER, I AM ACCOMPANIED HERE TODAY BY MS. SUSAN WAGNER, THE COMMISSION'S EXECUTIVE DIRECTOR, AND HUNT BANISTER , OUR BUDGET DIRECTOR. THEY ARE ESPECIALLY CONVERSANT WITH THE COMMISSION'S PROPOSED BUDGET, AND WILL BE PLEASED TO CONTRIBUTE TO THE DISCUSSION.

THANK YOU.

INTRODUCTION OF ASSOCIATES

Senator **Cochran**. We invite you to come up to the witness table, introduce your colleagues who are with you, and make any summary statement or comments that you would like. We will then have some questions to propound.

Welcome, Mr. Johnson. You may proceed.

Mr. **Johnson**. Thank you very much, Mr. Chairman.

Before I begin, I would like to take the liberty to introduce several individuals both at the table and in the audience. In the audience are two of my colleagues on the Commission: James Stone, the former Chairman, and Susan Phillips, one of our newer commissioners. At the table, on my right, is our budget director, Hunt Banister, and on my left is our executive director, Ms. Susan Wagner.

Mr. Chairman, there was a lengthier statement submitted on April 1. I have a very brief statement that, with your permission, I would like to make at this time.

Mr. Chairman and members of the subcommittee, today, the Commodity Futures Trading Commission is at a crossroads in its short history. The agency is now undergoing its second reauthorization process in the Congress. The Agriculture Committees have labored long and well to assure that the Commission has the tools needed to meet its growing responsibilities in the years ahead. I have every confidence that the Commission will emerge from that process better and stronger than ever.

The budget, of course, is the lubricant that makes the Commission work. The great promise of the agency hinges on having the resources to move ahead. The delivery of needed services to the public and to the economy depends upon adequate funds, as does the protection of the public against abusive practices. I have come to the Commission at a time when it is ready, willing, and able to join the community of mature Federal agencies.

INCREASE IN TRADING VOLUME

The Commission regulates an industry experiencing explosive growth. Trading volume has nearly tripled in the past 5 years. Futures trading has reached beyond agriculture into the housing, energy, manufacturing and banking industries, among others. The number of licensed exchanges, brokerage firms, and trading professionals regulated by the Commission has grown tremendously. The exchange community has kept pace by increasing its budgets as much as fourfold in the last 5 years. The question, simply put, is whether the Commission can be equally responsive.

The budget increases received by the Commission in each of the last 5 years have averaged roughly 4 percent. Our staff has grown by a modest 1 percent. I mention these figures simply to contrast the Commission's annual rate of development with that of the industry it regulates, which averaged 60 percent a year, and even with the rate of inflation—which has exceeded 4 percent, sometimes dramatically, in each of the past 5 years.

BUDGET REQUEST

For fiscal year 1983, the Commission is asking about a 10.5-percent increase over the 1982 budget, or $22,999,000. In addition, the agency seeks a supplemental fiscal year 1982 appropriation of $888,000 for mandatory salary increases. With these added funds, the Commission would hope to increase its staff from the present 470—a fairly stagnant figure since 1977—to 516, or 8.5 percent. The largest fund increases would go to programs that, and overtime, should save considerable expense for the Commission.

First, $280,000 would be applied to market surveillance—the Commission's first line of defense against market disruptions, and a far cheaper program than after-the-fact remedial action. Second, $529,000 would go to law enforcement in an effort to target violators individually rather than having to impose costly industrywide regulations in response to problems. And $272,000 would be assigned to our computer system which, at present, is largely a relic from the 1960's.

USER FEE PROGRAM

The Commission is well aware of the need for fiscal restraint today. For that reason, the agency is not asking for all of the funds needed to close the gap that has developed over the past 5 years. We have also proposed to Congress that a new user fee program be enacted to provide a counterweight to our budget needs, thereby reducing the burden of our operations on the American taxpayer. The Office of Management and Budget has made clear to us that adoption of such a user fee will weigh heavily in its decision whether or not to support our 1983 request. More recently, the Director of OMB has advised the Agriculture Committees that the outcome of the user fee issue would affect even the administration's support for the Commission's reauthorization as a continuing agency. We will continue to support the enactment of such a fee and, whether or not we succeed, you may be assured that the Commission will perform responsibly within whatever budget constraints are imposed.

COMMISSION ACTIVITES

Since I joined the Commission last June, a number of important actions have taken place. We have processed 22 new futures contracts; approved the formation of the National Futures Association as the industry's first nationwide self-regulatory body; developed a pilot program for exchange-traded commodity options; imposed a system of limits on the size of speculators' holdings in the markets; embarked upon a campaign to enlist the aid of other Federal agencies and State law enforcement officials in eradicating virulent consumer fraud perpetrated by phony commodity investment firms; began a computer modernization program, with interim use of the EPA's sophisticated equipment; designed legislative proposals to strengthen and streamline the Commission's operations; and resolved an 8-year dispute with the SEC over jurisdiction. Building on the able leadership of my predecessor, Commissioner Stone, and the willingness of staff to work evenings and weekends, the Commission has achieved a prodigious rate of productivity. The momentum already exists, and our budget request is designed to preserve that same level of achievement.

As I indicated earlier, I am accompanied here by Ms. Susan Wagner, our executive director, and Mr. Hunt Banister, our budget director. They are especially conversant with the Commission's proposed budget and will be pleased to contribute to the discussion.

Thank you very much.

USER FEES

Senator COCHRAN. Thank you very much, Mr. Chairman.

I know that during the markup of the reauthorization bill in the Senate Agriculture Committee there was consideration given to the request of the Administration to impose user fees. My monitoring of that during the full committee activity, because I am a member of the committee, leads me to the conclusion that the Congress is not going to approve user fees this year; although, there may be an amendment offered on the floor of the House or Senate, or both, on that subject. Will that affect in any way your budget request if the Congress does approve user fees this year?

Mr. JOHNSON. If it does approve?

Senator COCHRAN. Yes.

Mr. JOHNSON. It would not affect the budget request that we have. If the user fee is not adopted, there is a possibility that the Office of Management and Budget may withdraw its support for the Commission's 1983 budget.

Senator COCHRAN. As I recall, there was a quid pro quo involved in the user fee request. OMB approved your budget based on the assumption that Congress would approve user fees. Is that correct?

Mr. JOHNSON. That is my understanding, Mr. Chairman.

Senator COCHRAN. Do you know what level of support would be attained from OMB if the user fee proposition is not approved by Congress?

Mr. JOHNSON. Mr. Chairman, the only information we have is the letter from Director Stockman to the Agriculture Committee indicating that the administration might not support reauthorization at all in the absence of a user fee.

FULFILLMENT OF LEGAL RESPONSIBILITIES

Senator COCHRAN. When you submitted your budget request originally, our information is that you were asking for a budget of $24 million, or a little more. Is it your judgment at this point that the $22.9 million, which is the level of request that you submitted and has been approved, will be sufficient to permit the Commission to fulfill its legal responsibilities?

Mr. JOHNSON. We had hoped for a higher, full-time permanent staff level for fiscal year 1983. The Office of Management and Budget recommended 510 full-time staff rather than 572, as we had proposed. We are satisfied that with the 510 and a good deal of belt tightening we can get through fiscal 1983 with the budget that is now before you.

Senator COCHRAN. There was one statement in the explanatory notes that accompanied the budget request indicating that the

Commission's enforcement efforts were limited in fiscal year 1981 due to lack of investigative resources. Does your current budget request adequately address that problem, or will you be limited in this next fiscal year because of the inadequacy of investigative resources?

Mr. JOHNSON. Mr. Chairman, one of the major requests that we have in our 1983 budget is an increase of $529,000 for enforcement efforts. With those funds, we will be able to hire the staff that we need in order to keep pace with the growth in the industry and the need for greater enforcement effort. Since I came to the Commission in June, I placed very heavy emphasis on the enforcement activity and continue to intend to do so.

CIVIL PENALTIES

Senator COCHRAN. We realize one of the tools you have in the enforcement area is the imposition of civil money penalties. Can you tell us how much in penalties was assessed last year, and what your outlook is for the current year?

Mr. JOHNSON. Last year, the civil penalties recovered as a result of Commission enforcement actions approached $2 million, roughly 10 percent of our budget. For 1982, it will depend entirely on the nature of the enforcement cases brought and the nature of any penalties assessed by the Commission or settlements reached with the parties. It is difficult to project from one year to the next what that figure will be.

Senator COCHRAN. What happens to that money? Do you get to keep it and use it?

Mr. JOHNSON. No, sir; it goes into the U.S. Treasury.

Senator COCHRAN. For the help of the committee, we would appreciate it if you could provide us a list of assessments imposed in fiscal year 1981 and any figures that you have that are available to show the civil money penalties imposed or assessed in this current fiscal year. Would that be possible? That wouldn't violate anything; would it?

Mr. JOHNSON. No; there is no difficulty with that. We would be pleased to provide that information.

Senator COCHRAN. Are these matters of public record?

Mr. JOHNSON. Yes, sir.

[CLERK'S NOTE.—The information referred to appears on pages 928-930.]

PREVENTION OF FRAUD AND MANIPULATION

Senator COCHRAN. There is always concern about fraud and manipulation of any market; and because of the publicity attendant to the silver futures situation a year or so ago that was brought to everybody's attention, do you think that safeguards are in place at CFTC and in the industry to prevent manipulation of the market? Can the people who deal with the market—farmers and traders—be comfortable in the knowledge that those safeguards are appropriate and are effective to prevent that kind of activity?

Mr. JOHNSON. Mr. Chairman, in the case of the silver situation itself, the predominant problem was the accumulation of enormous positions in the market by individual speculators. Last September, the Commission took steps to require that there be position limits placed on all speculative futures positions, and as a result of that I am confident, and I believe the Commission is confident, that the accumulation of a futures position such as occurred in silver is not likely to recur either in that commodity or any other. Beyond that, the Commission has daily market surveillance programs, and the exchanges have the same. The incidence of manipulation in the markets has been relatively low historically as compared to the volume of trading that has occurred. There is always the risk of a manipulation, and that is why we attempt to be as vigilant as we are in the day-to-day monitoring of the market. I think, at least in the context of the silver situation, the imposition of speculative position limits goes a long way toward preventing the type of economic conditions which precipitated that problem.

Senator COCHRAN. Are there particular commodities that seem to be more popular targets than others for fraud or manipulation?

Mr. JOHNSON. Not to my knowledge.

JURISDICTIONAL ISSUE WITH THE SEC

Senator COCHRAN. There had been some concern expressed about the relationship between the CFTC and the Securities and Exchange Commission. At our hearing last year, as a matter of fact, there was some discussion about the definition of the responsibility or jurisdiction of each of the Commissions. What is your assessment at this time of the clearness of the definition of jurisdiction between the two Commissions?

Mr. JOHNSON. As a result of negotiations that occurred over the summer and fall of 1981 between the Chairman of the SEC and myself, and subsequently through action by the two agencies, a jurisdictional accommodation was reached which answers a very large percentage of the questions about the jurisdictional issues between the agencies. As you know, Mr. Chairman, the Senate Agriculture Committee has approved that agreement in the form of sections in S. 2109. The House Agriculture Subcommittee recently did the same. That will go to the full House Agriculture Committee a week or so from now. If that is enacted into law, I have every confidence that we will have a period of cooperation and cordiality between the two agencies.

Senator COCHRAN. That is good news, and I think you are providing good, strong leadership in that regard.

REPARATIONS CLAIMS

What is the status of your reparations claims backlog? Do you have enough money in the budget request to help keep up to date with the processing of claims in an expeditious fashion?

Mr. JOHNSON. We have had some serious problems with the reparations program, not because the staff hasn't been trying to keep on top of it, but because it has turned out to be significantly more popular than we anticipated. The issues involved tend to be more complex than one might first suspect, and the reparations section of the statute itself is fairly complex. We have proposed in the reauthorization package before the Agriculture Committees that we be authorized to streamline that program by, in effect, redesigning it. The Senate Agriculture Committee has voted to afford us that opportunity. The House Subcommittee has done the same. The money that we have allocated to reparations for fiscal year 1983 would, under the present structure of things, allow us to maintain the status quo in reparations but not improve the situation significantly. With an opportunity to redesign and streamline the program, we feel that the funds requested for 1983 will be adequate not only to do that but also to cut down on the backlog significantly, as well.

NATIONAL FUTURES ASSOCIATION

Senator COCHRAN. I recall one of the arguments that was advanced in the full Agriculture Committee markup of the CFTC reauthorization bill for opposing or not approving the imposition of the user fee was that there has been created an association within industry to share in the responsibility for regulating the industry. What is your assessment of the efficacy of self-regulation by the industry? To what extent do you think that effort will be successful in sharing the responsibility that is invested in the CFTC by law?

Mr. JOHNSON. The organization to which you refer is the National Futures Association, and last September the Commission approved its charter. The Commission is very supportive and very enthusiastic about the National Futures Association. I think it is a very positive development in the maturation of the industry's self-regulation as a whole. It is not, however, going to have much of an impact on the Commission's needs in the short term, because it intends to phase in its operations over a period of 2 or 3 years. I think that the National Futures Association represents a very positive step forward. The Commission favors self-regulation; it favors delegating to the industry many of the time-consuming processing functions that the Commission now has. There is hope, and there is promise that the NFA will take some of that burden from the Commission over time. But between now and the end of fiscal year 1983, it seems highly unlikely that the NFA will have the structures in place to do all of that.

INDUSTRY SELF-REGULATION

Senator COCHRAN. There already are, to some extent, rules and regulations that are imposed within each exchange on members and traders. This, too, is a form of self-regulation, as I understand it, which is a basis for an argument that user fees or more contributions by the industry, would be inappropriate. How well do you think the exchanges themselves do in trying to police their members and assure that trading is fair and that manipulation and other fraudulent kinds of practices are effectively prohibited?

Mr. JOHNSON. Well, you are correct, Mr. Chairman, that each of the 11 exchanges has a self-regulatory unit in it. It has its own financial standards, requirements, and things of that nature. It is my personal view the exchanges have come a very long way toward developing an effective self-regulatory system in the last 10 or 15 years. We continue to find failings in those systems, however, from time to time, and we are not at this point prepared to say that they could act as a complete substitute for Federal oversight by the

CFTC. As time goes on, as they mature, and as their programs get more effective and their commitment to self-regulation grows—I think the NFA is one indication that commitment is growing—I expect the industry itself will be able to take on more and more of a self-regulatory role, and the Commission will be able to recede into a pure oversight role. But we are still a few years away from that configuration.

FEES CHARGED BY THE SEC

Senator COCHRAN. There was some comparison made between user fees and the assessments that are made at the Securities and Exchange Commission on trades. Is there a true user fee system in place at the SEC, and do those funds lessen the amount of appropriated funds that are necessary to permit the operation of the SEC?

Mr. JOHNSON. The functional equivalent of the user fee proposed by the CFTC is, at the SEC, a fee on the dollar value of securities traded on the national exchanges. It is one three-hundredths of 1 percent of the value of all securities traded. Last year, my understanding is that the transaction fee resulted in $18 million, registration fees in $42 million, and other fees in $8 million. In other words, the SEC collected $68 million out of a total budget of $85 million. Those funds, as I understand, go into the Treasury as well, and as a result they are not available directly to the SEC for use.

CONGRESSIONAL JURISDICTION

Senator COCHRAN. There is some consideration, at least over in the other body, of placing CFTC jurisdiction in a committee other than the House Committee on Agriculture. Is there an administration position on that issue? I don't recall it coming up in our markup here in the Senate Agriculture Committee.

Mr. JOHNSON. Mr. Chairman, I am not aware that there is. I do know the administration has taken the position, or had taken the position, that the Commission should be reauthorized as an independent agency with its jurisdiction intact. I do not know what the position of the administration may be on congressional jurisdiction.

USE OF FUNDS APPROPRIATED

Senator COCHRAN. I noticed in the newspaper this morning that an order had come down from the troika at the White House—Meese, Baker, and Deaver, I guess, or Stockman—that administration witnesses were not to answer questions from the Congress about what they would do if funds were made available over and above the budget request. I wonder whether or not, therefore, you are limited in a response to this question. If we decided to approve an appropriation over and above $22,999,000—the figure that you originally presented to OMB—what would you do with that money?

Mr. JOHNSON. Well, Mr. Chairman, the Commodity Futures Trading Commission is an independent regulatory agency and is not part of the executive branch. I wasn't aware of the directive that had evidently been issued. We had, as you know, originally requested a somewhat higher budget than the $22.9 million that is before you. We could certainly use the funds. At the same time, of course, we want to be sensitive, as everyone is these days, to budget restraint in an attempt to get the budget deficit down. I think we can live with the $22.9 million. But in terms of the broader question, we could certainly use additional funds as well.

Senator COCHRAN. Do you see a cutting back of appropriations here as having the potential of costing the government money later on?

Mr. JOHNSON. There is that risk.

Senator COCHRAN. How would that materialize?

Mr. JOHNSON. Well, if the Commission's budget were so constrained that we were forced to do a less than efficient job of market monitoring, for example, and that led to a market manipulation, the impact of that, first of all on the public and eventually on government, could be really very substantial. Our primary role, which is essentially to save everyone a lot of money, is to be certain those kinds of things don't happen. To the extent we have the funds and the personnel to keep a good handle on the marketplace, we can reasonably well assure that it is going to be very exceptional to have a situation like that arise. If that were not the case and if it were known to those who might attempt to violate the law, the incidence of violation would likely increase, and some of them could be quite dramatic in terms of cost to the public and potential cost to government itself.

Senator COCHRAN. We appreciate very much your being here, and again want to apologize, Mr. Chairman, for your having to be up here one day, wait around, and not get a chance to testify, and then having to come back up here again. But we thank you for being here. We thank you for your statement and your assistance to the subcommittee as we review these various requests from the agencies and departments under the jurisdiction of the subcommittee.

Our next meeting of this subcommittee will be held on Monday, April 19, and there will be a meeting again on Tuesday, April 20, at which time we will hear testimony from public witnesses on a variety of programs under the jurisdiction of this subcommittee. Information may be obtained from the subcommittee staff about the public witnesses' hearings.

SUBMITTED QUESTIONS

[The following questions were not asked at the hearing, but were submitted to the CFTC for response subsequent to the hearing:]

COMMODITY FUTURES TRADING COMMISSION

QUESTIONS SUBMITTED BY SENATOR COCHRAN

ADDITIONAL STAFF POSITIONS

Question: In your prepared statement, you point out that your budget request includes funds to support an additional 40 staff positions under the 1982 ceiling. Please provide a breakdown of how these new personnel would be assigned and utilized.

Answer: The 40 additional staff-years will be allocated as indicated below for the purposes of the budget. It should be noted that the actual assignment of staff-years is determined by the Commission on a quarterly basis.

--The Daily Market Surveillance Program will be augmented by five positions which will aid efforts to elevate market surveillance activities covering existing active futures markets to a more comprehensive and intensive level; to allow additional specialized expertise by the daily market surveillance economists; to begin to monitor commodity options markets which are expected to begin trading in late 1982; and to provide adequate surveillance activities to aid in the prevention of price manipulation, market disruption, excessive speculation and the resulting economic losses.

--Two economists will be added to the staff in support of the market analysis function to assist in reducing the time required for approval of pending applications for contract market designation and rule change proposals, as well as to permit the development of additional commodity expertise that in turn will lead to more thorough and intensive economic analysis of all new contracts and contract changes, preventing future market problems.

--The audit and financial review area will increase by five staff-years to meet anticipated increases in Disclosure Documents Filings and requests for interpretations and exemptions; to provide for more thorough review of the track records of CPOs and CTAs; and to increase the number of audits and inspections in anticipation of increasing the numbers of referrals for enforcement action against registrants for violation of the Act or Commission regulations.

--The contract markets subprogram will be augmented with two attorneys in anticipation of an increase in rule submissions and to assist in reducing the time between exchange submissions of contract market requests and proposed rule amendments and staff referrals to the Commission for action; and to expand affirmative action on exchange rule enforcement reviews, onsite observation of floor trading practices, and trade practice investigations in an attempt to detect and deter unlawful practices.

--The investigations subprogram of the Enforcement Program will gain five staff-years to help ensure adequate investigative capability for the anticipated increase in workload resulting from expanding markets and new regulatory programs in areas such as commodity options, and to aid in the development of a better investigative record which can result in more effective litigation against violators, providing more prompt and expansive relief.

--The litigation subprogram of the Enforcement Program will also receive five additional staff-years to meet the increasing burden in customer protection activity due to a rapid growth in the size of commodity pool operations and to provide adequate capability to enforce Commission regulations in new complex instruments in the area of commodity options, leverage transactions, and dealer options. In addition, these resources will allow enforcement litigation to be conducted more effectively both in seeking more prompt and more expansive relief.

--The Automated Data Processing Program will receive eight additional staff-years. Areas which will receive attention include the development of new and improved applications necessary to provide daily market surveillance through an on-line realtime update and retrieval system, improvement of systems documentation, enhancement of current applications as industry requirements and regulations necessitate, maintenance of current applications and operations while developing the new applicatons, and installation of test models, procedures and standards to remain abreast of systems development.

--The Centralized Administration functions will be augmented by eight staff-years in the areas of budget and personnel analysis, audit and evaluation, hearings, complaints, and legal counsel.

Question: The potential exists that various studies to be conducted by the Commission, as well as the formulation and implementation of new regulations, will require a substantial amount of staff effort. Will you have adequate funding to support these staff needs based on your current request?

Answer: The Commission allocates internal resources to meet the demands of special projects and studies. Each quarter, a meeting is conducted to discuss which projects and activities are receiving staff attention. It is at this time that the Commission may allocate resources to a particular study or project, or determine an order of priority among projects if resources need to be shifted.

The Commission had requested adequate funding in its current budget to handle special projects and studies, with the possible exception of a major study of the effect of futures on the economy which was included in the House version of CFTC's reauthorization legislation.

REDUCTION IN REQUEST

Question: A September 10, 1981, letter from the Commodity Futures Trading Commission Chairman Philip Johnson to the Office of Management and Budget Director David Stockman indicates that the Commission voted to request a budget of $24,562,000 for fiscal year

1983. The President's request to the Congress is $22,999,000. What were the reasons given for the Office of Management and Budget's reduction of $1,563,000 in your request?

Answer: The Office of Management and Budget reduced our original request for 572 full-time permanent staff-years to 510. The $1,563,000 reduction reflects the combined effects of this reduction in requested staff, reduced inflation assumptions, and the provision for the January 1, 1982 executive pay raise. No reason other than the desire to limit staff growth was given by OMB.

SUMMARY OF FY 1983 BUDGET REQUESTS

Question: For what purposes was the additional amount slated?

Answer: A summary of our FY 1983 budget requests follows:

	(Full-Time	Permanent	Staff-Years)
	OMB Request	OMB Mark	Congressional Request
Market Surveillance	109	-12	97
Enforcement	137	-20	117
Registration, Audits and Contract Markets	119	-13	106
Market Research and Education	17	- 3	14
Agency Direction	48	- 3	45
Administrative Law	27	- 2	25
Legal Counsel	32	- 5	27
Automated Data Processing	31	0	31
Centralized Administration	52	- 4	48
	572	-62	510

The additional resources associated with our original request were to support an additional sixty-two staff-years, to be distributed as follows:

--In Agency Direction the additional 3 staff-years would have been used to support the automation of the indexing system in the Secretariat's office, to improve Privacy Act, FOIA, and Sunshine Act compliance, and to assist in long-range planning for the Commission;

--The amount requested for Market Surveillance would have allowed the Commission to further enhance its market surveillance and to allow more specialized and speedier market analysis or contract market designations and rule changes;

--The Registration, Audits, and Contract Market Program request would have allowed more front office audits to be conducted, and quicker contract market designation and rule amendment review;

--In the Enforcement Program, the request would have allowed more staff-years to be devoted to the investigation and litigation of violations of the Commodity Exchange Act;

- --Increase in the Market Research and Education program would have allowed additional studies on various futures industry issues, such as delivery points in existing contracts, the alignment of interest rates on Treasury bills, and structure changes in brokerage and commodity dealer industry;

- --The requested increase in the Administrative Law Program would have allowed faster processing of and decision in reparations cases;

- --The requested increase in the Legal Counsel Program would have allowed the CFTC to respond more quickly to the litigation, opinion writing, and advisory needs of the Commission;

- --The ADP request in the FY 1983 budget request before the Congress and the ADP request made to OMB are the same;

- --In Centralized Administration, the request would have allowed improved budget analysis and fiscal operation (i.e., accounting, payroll, etc.), quicker personnel action, and support for audit and evaluations.

LEGAL ACTIVITIES

Question: The Commission has a large demand for legal services, including the handling of reparations cases, the preparation of legal advisory opinions, and the litigation of cases. Do you have enough staff lawyers to handle your case load and advisory functions?

Answer: The Legal Counsel function presently has twenty-four full-time staff-years. The FY 1983 budget would request three additional staff staff-years. The additional positions are necessary to meet the continually expanding duties assigned to Legal Counsel function.

The Legal Counsel function must meet a steady increase in its litigation docket as a result of more aggressive enforcement efforts, numerous challenges to the regulatory and enforcement activities of the Commission, and an increasing number of reparation orders of the Commission being appealed to court of appeals. Unless the requested additional resources are made available, the allocation of resources necessary to defend the varied, and often emergency district court and appellate actions filed against the Commission will result in a substantial decrease in the ability of the Commission to participate as *amicus curiae* and in bankruptcy proceedings even when the issues to be decided are critical to the Commission's regulatory programs or the protection of public customers.

The requested additional resources also are necessary to continue to reduce the large backlog of reparation cases on appeal before the Commission. Moreover, the requested resources are necessary so that the Commission, through the General Counsel, can adequately comply with the rapidly increasing number and complexity of congressionally created regulatory requirements outside the Commodity Exchange Act.

Question: How is the Office of Legal Counsel structured? Please provide an organizational chart and personnel assigned.

Answer: The Legal Counsel function is performed by the Office of the General Counsel. The Office is structured to reflect generally the various functions assigned to the Office, including litigation, regulatory and enforcement review, legal advisor, and opinion writing.

The Opinions Section of the Office of the General Counsel, which manages the Commission's appellate docket of adjudicatory matters, and prepares background memoranda and opinions and orders relating to adjudicating cases which come before the Commission on appeal, has a separate staff to perform the adjudicative function.

Organizational Chart of the Office of the General Counsel

General Counsel

Deputy General Counsel (Litigation)	Deputy General Counsel (Administration and Review)	Deputy General Counsel (Legal Advisor, Opinions Section and Special Projects)
Associate General Counsel		(Opinions Section) Associate General Counsel
Assistant General Counsels	Assistant General Counsel	Assistant General Counsel
Special Counsels		
	Staff Attorneys	Opinions Section Attorneys
	Support Staff	Support Staff

CIVIL PENALTIES ASSESSED

Question: You mentioned in your prepared statement that record money penalties were assessed in fiscal year 1981. Please provide a list of assessments imposed in fiscal year 1981, and any to date in fiscal year 1982.

Answer: A summary of civil penalties assessed in FY 1981[1] follows:

Docket No.	Order Dated	Respondent(s)	Amount
79-28	10/15/80	First Commodity Corp. of Boston	$ 83.81[2]
79-28	10/15/80	Donald Schleicher	$ 200,000
79-28	10/15/80	Richard Schleicher	$ 100,000
79-28	10/15/80	Benjamin T. Elliot	$ 3,500

Docket No.	Order Dated	Respondent (s)	Amount
79-28	10/15/80	David Stone	$ 1,500
79-28	10/15/80	Emil Lawrence	$ 3,500
79-28	10/15/80	Robert Duke	$ 30,000
81-2	12/17/80	Harvey Shiller	$ 10,000
79-31	1/7/81	Jules Nordlicht	$ 75,000
81-7	2/9/81	Philip L. Beham	$ 1,500
81-7	2/9/81	Hornblower and Loeb Roades	$ 6,000
78-48	12/25/80	Lincolnwood Commodities, Inc., of California	$ 100,000[3]
78-48	12/15/80	Constantine Baksheeff	$ 70,000[3]
78-48	12/15/80	Paul N. Saharoff	$ 25,000[3]
78-48	12/15/80	Carlton G. Almgren	$ 35,000[3]
78-48	12/15/80	Ronald Bashista	$ 30,000[3]
78-48	12/15/80	Walter Shergin	$ 6,000[3]
78-48	12/15/80	Victor B. Platonoff	$ 6,000[3]
78-48	12/15/80	Richard W. Bennett	$ 6,000[3]
79-21	2/23/81	Emil Akar	$ 5,000
79-27	3/10/81	Easton & Co.	$ 20,000
79-27	3/10/81	Stanley Easton	$ 10,000
79-27	3/10/81	Roger Geissler	$ 10,000
79-27	3/10/81	Kenneth Easton	$ 3,000
79-27	3/10/81	Howard Paul	$ 1,000
79-27	3/10/81	Dishy Bros.	$ 5,000
79-27	3/10/81	Bernard Dishy	$ 2,000
78-11	3/19/81	Shearson Hayden Stone Inc.	$ 75,000
78-60	8/28/81	Leon Mayer	$ 10,000
80-19	3/27/81	Ronald W. Harrison	$ 5,000
81-22	7/15/81	Boston Trading Group	$ 50,000
80-4	7/14/81	Dillon Gage, Inc.	$ 1,000[3]
80-4	7/14/81	Stephen W. Miller	$ 1,000[3]
77-22	5/7/81	John J. Muller	$ 7,000[3]
79-60	5/6/81	Stephen M. Teplitz	$ 2,000
80-29	5/20/81	Arthur Kaplan	$ 25,000
81-11	5/22/81	Scott D. Gordon	$ 2,500
81-11	5/22/81	Harold H. Halford	$ 2,500
80-19	6/16/81	James P. Jarboe	$ 5,000
81-23	7/20/81	New York Mercantile Exchange	$ 200,000
78-7	7/21/81	Nelson Bunker Hunt W. H. Hunt Houston B. Hunt Elizabeth Hunt Curnes Mary Hunt Huddleston Ellen Hunt Flowers Douglas Hunt Hunt Holdings, Inc.	$ 500,000
81-24	8/7/81	Anthony Spinale	$ 5,000
80-17	9/4/81	Bruce Zins	$ 5,000
77-8	8/31/81	Stewart E. Fason	$ 75,000[3]
79-22	9/16/81	Stephen M. Sundheimer	$ 100,000[4]
	FY 1981	Total	$1,836,083.81[5]

A summary of civil penalties assessed in FY 1982 (as of March 31, 1982) follows:

Docket No.	Order Dated	Respondent (s)	Amount
80-14	11/2/81	Robert L. Bone	$ 100,000
80-14	11/2/81	Roy L. Woods	$ 15,000
82-3	11/20/81	Prime Financial Services, Inc. Zowee Investment Corp. Prime Precious Metals Co. Prime Strategic Metals Co. Strategic Metals Internationale, Inc. Princeton Commodity Corp.	$ 200,000
80-9	12/9/81	Arthur Murphy	$ 20,000
79-26, 79-53	1/6/82	Chartered Systems Corp. of New York Ltd.	$ 35,000
81-9, 81-17, 81-21	2/5/82	H. Paul Nesbit	$ 25,000[3]
82-9	2/26/82	Rauscher Pierce Refsnes, Inc.	$ 20,000
78-65	2/17/82	Delta Commodities Corp.	$ 5,000
79-4	2/17/82	Delta Commodities Corp.	$ 5,000
80-21	2/23/82	Rosenthal & Co.	$ 30,000[3]
82-13	3/10/82	King Commodity Services, Inc.	$ 5,000
	FY 1982	Total to Date	$ 460,000

[1] Additionally, the Commission was awarded costs and attorney fees in bringing both a civil contempt proceeding ($4,324.83), CFTC v. Premex Civ. No. 78-115 (N.D. Ill. 1980), and a subpoena enforcement action ($114.50), CFTC v. Raymond A. Lacy, Civ. No. 80-4882 (N.D. Ill. 1981)

[2] Represents the balance of a $600,000 fund for the payment of reparations claims.

[3] Initial decision now on appeal to the Commission.

[4] Commission decision now on appeal to the Court of Appeals.

[5] Does not include $34,000 credit to the U.S. Treasury account as a result of civil penalty collection program directed against delinquents.

ANTIFRAUD

Question: Please provide a brief synopsis on the activity of the Commodity Futures Trading Commission to combat fraudulent activity during the last year.

Answer: During fiscal year 1981 the Commission continued to conduct investigations of allegedly fraudulent conduct in a wide spectrum of commodities. During the year the Commission instituted 40 law enforcement actions based upon violations of the Commodity Exchange Act or the Commission's regulations. The Commission also:

--obtained 111 federal court permanent injunctions;

--obtained approximately $1,500,000 in disgorgement of unlawful benefits or similar ancillary relief;

--placed more than $15,000,000 under the protection of court-appointed receivers;

--entered 98 cease and desist orders;

--prohibited 49 persons from trading on exchange markets;

--revoked, suspended or denied the registrations of 78 persons; and

--assessed civil penalties aggregating $1,836,081 upon 52 persons.

A large portion of this relief was the result of alleged or adjudicated fraudulent activity.

In addition, the Commission continued actively to assist the Department of Justice in commodity-related criminal prosecutions. Many of these are criminal prosecutions involving fraud. Our records indicate that during the year 61 persons were indicted in federal criminal cases which were commodity-related and 42 persons were convicted of federal crimes in these or similar cases, resulting in sentences aggregating more than 150 years of incarceration and more than $430,000 in fines.

The Commission has also been conducting a concerted campaign to enlist state and local law enforcement officials in the effort to eradicate off-exchange fraudulent operators who adopt a "commodities" theme. In August of 1981 the Chairman wrote to the Attorney General of each state urging use of the state's general civil and criminal antifraud statutes to attack these fraudulent operators. The Chairman also urged them to consider joining with the Commission in co-operative enforcement actions under the Commodity Exchange Act and offered the assistance of our staff in preparing and conducting these actions. The Chairman extended the same invitation to the North American Securities Administrators' Association ("NASAA"). In December of 1981 we prepared and distributed to state attorneys general and NASAA copies of a "Spotter's Guide to Commodity Investment Fraud." This document was designed to assist local officials both in detecting fraudulent operators more promptly and in prosecuting them more effectively. In addition, our staff is currently completing plans for a co-operative enforcement seminar for state law enforcement officials to be conducted at the Commission this Spring.

At the federal level, the Chairman met with both the Director of the Federal Bureau of Investigation and the Chairman of the Federal Trade Commission to enlist their continued support in our campaign against fraudulent operators. Moreover, during the fiscal year, the Commission instituted the first joint civil action with the Securities Exchange Commission. SEC and CFTC v. T&D Management Co., et al., Civ. No. 81-0633 (D. Utah 1981). This action was successfully concluded and has been followed by a successful public administrative proceeding, In Re T&D Management Co., et al., CFTC Docket No. 82-12.

Finally, the Commission has proposed legislation to enhance the ability of state and local officials to attack the problems of fraudulent "commodity" operators. Both HR 5447 and S. 2109 would increase the Commission's ability to share investigative data with state law enforcement officials and should thereby increase the efficiency of current remedies available under the Commodity Exchange Act. More importantly, however, both bills would provide for an "open season" on "off-exchange" operators and those persons who unlawfully fail to register with the Commission.

ANTIFRAUD

Question: Are there particular commodities that are more popular targets for fraud? Are fraudulent schemes on the rise or decline?

Answer: For the most part, no particular designated commodity traded on an exchange appears to be more popular as a target for fraudulent activity than any other commodity.

In the area of unlawful off-exchange instruments, however, certain "commodities" seem to be very popular as the subject of fraudulent sales. At the beginning of the fiscal year, coal appeared to be the "commodity" of choice for many fraudulent sales operations. Due in part to the Commission's enforcement action against the largest purveyor of illegal coal contracts, (CFTC v. National Coal Exchange, et al., Civ. No. 81-2250 (W.D. Tenn. 1981) - preliminary relief granted April 2, 1982) and the activity of several federal grand juries, the attractiveness of coal as a vehicle for fraudulent operations seems to have waned somewhat. During fiscal year 1981, so-called "strategic metals" came into vogue as a "commodity" for fraudulent schemes. In fiscal year 1981, the Commission took enforcement action against five affiliated firms and five individuals who were involved in the sale of off-exchange futures contracts involving precious metals and strategic metals. CFTC v. NIMC, Incorporated, et al., (Civ. No. 81-4409 (C.D. Cal. 1981)). The Commission has subsequently obtained permanent injunctive and other equitable relief in that case and in two other cases involving six firms and four other individuals charged with selling illegal instruments in strategic metals. CFTC v. Prime Financial Services, Inc., Civ. No. 81-6615 (S.D. Fla. 1982); CFTC v. Commodity Management Services, Inc., et al., Civ. No. 82-6203 (S.D. Fla. 1982). In these latter cases the Commission also took administrative enforcement action and obtained substantial statutory relief. In re Prime Financial Services, Inc., et al., CFTC Docket No. 82-3; In re Commodity Management Services, Inc., et al., CFTC Docket No. 82-16.

The Commission is not able reliably to report whether fraudulent schemes such as those described above are on the rise or decline. We can report, however, that such schemes continue to be sufficiently widespread that they continue to pose a serious threat to public investors. For this reason we have actively sought to enlist the support of other federal, state and local law enforcement agencies to attack the threat such schemes pose to the public.

AUTOMATED DATA PROCESSING

Question: You have indicated in your testimony that you need additional funds -- $272,000 -- for the improvement of automated data processing. How will this amount be utilized to update your system?

Answer: The $272,000 will be used to fund eight additional staff-years in support of ADP activities. These staff-years will be devoted to developing new applications to automate registration procedures, streamline the reparations process, and broaden surveillance and enforcement activities. Resources will also be expended on the continued maintenance of current applications and operations, and the installation of test models, procedures and standards necessary to remain abreast of systems development and industry requirements and regulations. Excluding the eight staff-years and the dollars associated with them, there was no other increase specifically requested for ADP in FY 1983 over the 1982 level.

Question: How many years should the improvements meet your needs?

Answer: The ADP enhancement efforts which are underway at the Commission are currently being directed toward interim improvements to ensure future transportability of all of the CFTC's ADP systems. The Commission is developing a long range plan based on a feasibility study presently underway and an analysis of all Commission functions. ADP cannot be thought of as a one time expenditure -- the planning and updating should be an on-going function.

Question: What was your request of the Office of Management and Budget for this improvement?

Answer: For FY 1983 the Office of Management and Budget approved the Commission's full request for $272,000 to fund eight additional staff-years in support of our automated data processing capability.

ENFORCEMENT PROGRAM RESOURCES

Question: On page 22 of your fiscal year 1983 Budget Explanatory Notes, you indicate that the Commission's enforcement efforts were limited in fiscal year 1981 due to the lack of investigative resources. Does your current budget request adequately address that problem? How much did you request for this item in your original submission to the Office of Management and Budget?

Answer: During fiscal year 1981 the Commission's enforcement efforts were limited by lack of investigative resources. This lack of resources was due in part to the occurrence of normal personnel attrition during extended government-wide hiring freezes.

The Commission had, however, already taken steps to reinforce the Division of Enforcement. Despite a general reduction of CFTC staff levels from 510 to 470 in its FY 1982 Budget, the Commission has effected an internal reallocation of resources which has resulted in a 5% increase of the authorized enforcement staff level over the authorized enforcement staff level which prevailed during FY 1981.

In addition, the Commission intends to consider further reallocation of staff to increase enforcement resources. Finally, our FY 1983 Budget calls for the addition of $529,000 which includes funds for 10 additional enforcement staff-years; 5 staff-years are allocated to investigations and 5 to litigation.

The Commission is hopeful that these enhancements of its enforcement staff and resources will allow it to continue to press investigations opened during fiscal year 1981 and to expand new investigations. If the Commission's legislative proposals are enacted and the Commission is successful in its campaign to enlist the assistance of state and local law enforcement agencies in prosecuting fraudulent operators, additional enforcement resources may be redirected to problems in the exchange or commodity contract markets.

The Commission requested $1,136,000 for enforcement resources in its original submission to the Office of Management and Budget, which included funds for 30 additional staff-years.

SECURITIES AND EXCHANGE COMMISSION--JURISDICTIONAL RELATIONSHIP

Question: Last year, there was concern expressed at this hearing with regard to jurisdictional relationships between the Securities and Exchange Commission and the Commodity Futures Trading Commission.

What is the Commission's view of its jurisdiction vis-a-vis that of the Securities and Exchange Commission, particularly, with respect to any new financial instruments that have appeared within the last year?

Answer: The relationship between the Commission's jurisdiction vis-a-vis that of the Securities and Exchange Commission ("SEC"), particularly with respect to so-called "financial futures", has been resolved in an accord announced on December 7, 1981 by both this Commission and the SEC. The Commission has also sought to implement fully the jurisdictional accord through statutory amendments to the Commodity Exchange Act.

Under the accord and the proposed statutory amendments, the CFTC retains exclusive jurisdiction over all futures contracts and options on futures contracts. The CFTC will regulate futures contracts on exempted securities other than municipal securities, (none of which are presently trading). Pending further review, the Commodity Exchange Act will prohibit futures contracts (or options on futures contracts) on individual corporate securities. The CFTC will also retain the authority to designate options on foreign currency, but the Act will not apply to options on foreign currency traded on a national securities exchange. Nor will the Act apply to options directly on securities or groups or indexes of securities. With respect to futures on stock indices, the CFTC would be permitted to designate a board of trade as a contract market for contracts (or options on such contracts) of sale for future delivery on a stock index meeting specific criteria. Settlement must be by cash or a means other than a security on which a futures contract could not be authorized. The index must be broadly based, and composed of securities of unaffiliated issues which reflect a wide measure of the publicly-traded equity or debt securities or a substantial segment of such market. The standards and detailed procedures assuring SEC participation in the designation process as well as a right to judicial review, explicity provided for in the proposed statutory amendments, are intended to prevent unsound market practices, including manipulation.

Question: Are the lines of jurisdiction sufficiently clear?

Answer: The CFTC believes that the jurisdictional issues which have existed in the past between the CFTC and the SEC have been resolved with the CFTC-SEC accord announced on December 7, 1981.

REPARATIONS CLAIMS

Question: Please provide the Subcommittee with an update on your reparations claims backlog.

Answer: The Complaints Section's working case load is approximately 275. These cases are being reviewed to determine if a cause of action under the reparations program is presented. The Hearing Clerk's office has approximately 100 cases which are shelved until a filing fee arrives. The Hearings Section, as of April 1, 1982, has 877 active cases on its docket. An additional 350 cases are pending assignment to judges. In addition, 220 cases in which there was no answer from the respondent are awaiting default judgment opinions.

Question: How have you improved your ability to process claims expeditiously?

Answer: The Administrative Law Program has been able to increase the speed with which it processes claims through a combination of reorganization, management improvements and hard work. For example, in fiscal year 1979, it took an average of 194.27 days to process a case in the Complaints Section, which handles the initial screening and some initial datagathering for cases. In fiscal year 1980, the time frame was 134.58 days. In fiscal year 1981, new administrative procedures were implemented which resulted in an average of 118.65 days to process a case. This is a 40% improvement in time savings to complainants over the past two years.

The reorganization of the Hearing Clerk's Office also has contributed to improved efficiency. The Hearing Clerk's office now functions more like that of a civil court, handling filing fees, default cases, docketing, etc. The functions of the Hearing Clerk were also transferred from the Hearings Section to the Complaints Section, so that work flow would be improved and so that the Chief Law Judge could give more of his attention to the disposition of cases.

The Commission is in the process of streamlining other procedures in the Administrative Law Program which will further improve the speed with which claims are processed.

QUESTIONS SUBMITTED BY SENATOR EAGLETON

REPARATIONS IMPROVEMENTS

Question: Your statement indicates with great pride your efforts to expand the number of new contract approvals and highlights your request for an over $250,000 increase to help speed approval of additional contracts. And yet, one page later you state that because of the tremendous growth in the industry, the backlog of reparation cases continues to grow. You have decided to devote only a $96,000 increase to improving the reparation process. Don't you think your priorities are reversed? Shouldn't you get the reparation problem under control before we continue to expand to new contracts?

Answer: We are continuing to speed up and streamline our reparations process. In April of this year, the Commission hired a fifth Administrative Law Judge to assist in reducing the ever-increasing inventory of cases. This represents a 25% increase in our Administrative Law Judge staff.

In addition, we have proposed to Congress in the CFTC's reauthorization bill that the Commission be given the authority to streamline reparations procedures through rulemaking. We also plan to computerize many of the recordkeeping functions of the reparations program in the near future. Finally, we will continue to make the kind of internal management improvements which have enabled us to speed up the processing time over the last year.

MARKET SURVEILLANCE CAPABILITY

Question: Your budget request includes an increase of $400,000 for market surveillance activities which your budget notes will "maintain the daily market surveillance capability". This will bring you to a total of about $3.9 million in support of surveillance activities. Is this really adequate to do the job?

Answer: Yes. As noted in the Commission's budget statement, the $400,000 increase includes $222,000 for costs related to seven additional staff-years with the remainder accounting for a pro rata share of the Commission's anticipated increase in operating expenses. The seven staff-years will allow for surveillance and analysis of increased trading volume and anticipated trading in options, and will allow the Commission to maintain specialized expertise by surveillance and market analysis economists in the wide variety of commodities which the Commission regulates.

The pro rata share of increased Commission operating expenses for market surveillance covers some, but not all, of the requested increases in the Commission's ADP budget, a substantial portion of which will be used to automate the market surveillance system more fully. This planned increased use of data processing for surveillance as well as efficiencies the Commission can achieve in collecting required data, have limited the necessity for a larger request in increases in funds directly for market surveillance.

USER FEES

Question: Please describe your user fee proposal -- how it would work, who would pay, and how much of your budget this proposal would offset?

Answer: There would be a transaction fee, assessed upon each exchange, of 6 cents per side on each futures contract and option made for the account or benefit of any person who is a member of the National Futures Association or of the exchange where the trade was made. In addition, the exchanges would be assessed a fee of 12 cents per side on each futures contract and option made for the account or benefit of any person who is not a member of NFA or of the exchange where the trade was made. The Commission's proposal includes that 6-cent differential because the Commission recognizes that the exchanges and the National Futures Association will be assessing fees on their members toward the costs of self-regulation. The fees would be remitted annually to the United States Treasury by the exchanges. The exchanges, however, would be able to pass those fees on to their members who could, in most cases, charge their customers accordingly.

There should also be a fee of 3 dollars for each dealer option granted by a dealer option grantor and for each leverage contract entered into by a leverage contract vendor. These fees would be remitted annually to the United States Treasury by the grantor or leverage contract vendor, respectively. The Commission has recommended that separate fees be assessed for these firms because the Commission resources expended to regulate these transactions would not be adequately compensated for by the occasional payment of the transaction fee on futures and exchange-traded options by dealer option grantors and leverage contract vendors.

Finally, the Commission would be authorized to suspend the assessment of the statutory fees if the amounts collected exceed the Commission's budget for the fiscal year. Although the Commission anticipates that its proposal would initially generate approximately $15 million, its proposal should eventually result in full funding of the Commission's budget as the volume of futures trading increases. Under its proposal, however, the Commission would be given the authority to reduce, suspend or waive any part of the fee, or its application to any person, upon a finding that the fee was causing significant adverse effects upon the operations of any market or person.

IMPACT OF LEGISLATIVE PROPOSAL

Question: Please describe briefly for us your legislative proposal and what impact it would have on your budget request if the Congress does not enact your full legislative package?

Answer: CFTC's legislative package before Congress extends the agency's authorization for appropriations for a period of 2 years (Senate version) or 4 years (House version). Otherwise, CFTC's current funding authorization expires on September 30, 1982.

The legislation also contained a CFTC proposal for setting a transaction user fee for commodity trading, which is discussed in a previous question. Neither the House nor the Senate has adopted a user fee proposal to date.

Several additional items in the reauthorization package are designed to improve and simplify agency practices, and thus reduce budgetary costs. Failure of Congress to enact these various efficiency improvements could severely stretch scarce resources.

For instance, the proposal would allow CFTC to issue temporary licenses and would establish grounds for automatic denials of registration for commodity industry professionals. CFTC would also be allowed to limit its review of exchange rule proposals to important or economically significant ones. A complete overhaul of the reparations program would be allowed in order to make it faster and fairer.

There are also proposals in the legislation which would expand the ability of state and federal law enforcement agencies to use their laws to attack off-exchange commodity scams. The bill would also allow the CFTC to share information with other agencies for law enforcement purposes. And our "controlling person" proposal, which was amended in the House and Senate, would enlarge the CFTC's ability to reach those who control a firm when the company itself violates the law, enabling the CFTC to save the resources involved in chasing violators who move easily from one firm to another.

In addition, the legislative package would codify the jurisdictional agreement reached between the SEC and the CFTC. Disputes over jurisdictional issues have, in the past, taken a considerable amount of valuable time at both agencies. The CFTC legislative proposal would amend the Commodity Exchange Act to preclude the CFTC from approving or regulating any exchange options directly on securities, including government obligations. The proposal also gives the SEC an active role in the consideration of stock index futures proposals; places a moratorium on futures contracts on individual corporate or municipal securities; contemplates SEC authority over approval of foreign currency options traded on a national securities exchange; allows CFTC to share certain information with the SEC and securities self-regulatory organizations; and, expressly allocates jurisdiction over commodity pools.

Several proposals were added to the CFTC's legislative proposal by the House Committee on Agriculture and the Senate Committee on Agriculture, Nutrition, and Forestry which would affect CFTC resources.

Both the House and Senate bill require the Commission to study user fees and report back to the Congress in two years. The House bill also requires the Commission to conduct subject to additional appropriations, in conjunction with the SEC, the Treasury, and the Federal Reserve Board, "a study and investigation of the structure, participation, uses and effects of trading futures and related instruments, such as options, on the economy." The House also inserted language into its report which directs the CFTC to review delivery points for futures contracts on agricultural commodities; a study of the economic purpose and implications of index contracts also is contemplated in the House bill. All of these studies, if approved, will require substantial Commission resources.

QUESTIONS SUBMITTED BY SENATOR CHILES

STATE LAW ENFORCEMENT

Question: Senators Roth, Nunn, Rudman and I introduced S. 2210 recently. We believe its provisions will result in cost savings to the CFTC by conserving scarce enforcement resources. Do you agree? What about other aspects of the bill? Have you had a chance to review it?

Answer: The Commission has had an opportunity to review S. 2210 and agrees that certain of its provisions should result in enforcement cost savings. The Commission supports many of the goals of S. 2210, including the extension of registration and antifraud provisions to non-clerical employees of commodity pool operators and commodity trading advisors, proficiency testing procedures for all commodity professionals, and the broadening of the felony provisions of Section 9(a) of the Act to extend to all registrants. Although the Commission believes that certain provisions in S. 2210 concerning state regulatory authority might impose unnecessary and duplicative burdens on the legitimate commodity industry, the Commission agrees that the states should have a greater law enforcement role and that the Commission should be free to share information with the states for this purpose. As you may know, the Commission's reauthorization bill, S. 2109, has these points as one of its central themes.

The provisions in S. 2109 are designed to complement existing Section 6d of the Act, which authorizes state officials to proceed in federal court for violations of the Act and recognizes their ability to combat fraud in state court under their general civil and criminal statutes. Under S. 2109 the Commission would be authorized in Section 8 of the Act expressly to provide confidential information to the states, such as the details of specific business transactions and the names of customers, for law enforcement purposes. In addition, under Section 12(e) of the Act, the "open season" provision, any state law, general or otherwise, may be applied against those rip-off artists who do not comply with the Act but seek to fleece the the public. In large measure, the amendments to Sections 8 and 12 have been endorsed by the House and Senate Agriculture committees which have been reviewing the Commission's reauthorization. Should these proposals become law, it would be anticipated that the states' law enforcement tools will be able to be utilized more than ever before, thus freeing the Commission to focus its enforcement resources on the regulated commodity industry to ensure compliance with the Act and Commission rules.

REPARATIONS BACKLOG

Question: The recent PSI investigation and subsequent hearings revealed a backlog of several thousand reparations cases. What, if any, steps have been implemented to alleviate this problem? Specifically, do you plan to hire additional Administrative Law Judges or additional staff?

Answer: The Commission recently hired an additional law judge, bringing the total number of judges to five. The $96,000 increase in the Administrative Law Program requested in our 1983 budget would allow us to add two more staff-years.

PRIVATE RIGHT OF ACTION -- REPARATIONS

Question: S. 2210 recommends a private right of action. Do you see this as helping to alleviate the reparations backlog?

Answer: As you know, the Commission has offered no legislative proposals in this area. The Commission prefers to let the Supreme Court speak to this issue, as it did recently in Merrill Lynch, Pierce, Fenner & Smith, Inc. v. Curran et al. and other related cases. In these cases, the Court found that there is an implied private right of action under the Commodity Exchange Act. A private right of action could encourage customers to pursue their claims in court. This may help reduce the reparations backlog since fewer cases would be brought before the Commission. Moreover, to the extent a substantial body of judicial precedent is developed to complement reparations case law, more certainty regarding the respective rights and duties of customers and professionals could be achieved. This could help to foster more settlements of claims and thereby further reduce the number of cases brought or pending in reparations.

STATE AND LOCAL LAW ENFORCEMENT

Question: As you recently acknowledged during recent hearings by the Permanent Subcommittee on Investigations, the CFTC has limited resources to oversee and regulate commodities trading. In view of the limited CFTC resources, is it not true that concurrent state and federal off-exchange jurisdiction would provide more effective regulation by allowing states to use their resources to supplement CFTC enforcement efforts?

Answer: The Commission believes that strong state and local enforcement action is imperative in the area of "off-exchange" frauds which adopt a commodities theme. During the past three years the Commission has taken enforcement action to halt over 100 firms selling "off-exchange" instruments to the public, has obtained more than 250 injunctions against the operators and has placed approximately $3,500,000 of customer funds under the protection of equity receivers. In addition, there have been 19 criminal convictions obtained as a result of these Commission actions. We welcome the active participation of law enforcement agencies at every level of government.

The Commission has proposed legislation which will allow it to share investigative data with state and local law enforcement officials and thus enhance their ability to use both state remedies and remedies already available to them in the Commodity Exchange Act to attack these problems. In addition, the Commission had proposed a legislative amendment which would provide for an "open season" on "off-exchange" operators who adopt a commodities theme. Under this provision, no person could argue that the Commodity Exchange Act preempts the application of any law or procedure unless the transaction in question involved a designated futures contract, a regulated option or a regulated leverage contract. In addition, such a preemption argument would not be available to those persons who, while required to be registered with the Commission, had failed to do so.

If this provision is enacted, with regard to the off-exchange instrument and the person who has unlawfully failed to register, the states would be free to apply any form of regulatory scheme or enforcement process they might deem appropriate. It should be noted that the House and Senate Committee versions of the legislation provide that the states may not apply their laws to futures contracts traded on foreign exchanges except as provided by the CFTC.

PILOT OPTIONS PROGRAM

Question: The CFTC recently approved the pilot options program, yet in the PSI hearing, it has been shown that:

A. The pilot options program will take money away from existing programs.
B. It has weak economic basis.

C. It is open to fraud.
D. It depends upon a not-yet-implemented, self regulatory organization for its regulation.

In light of these factors, and the congressionally mandated requirement that the CFTC itself prove that it can effectively regulate options once the ban is lifted, do the benefits really outweigh its cost and potential fraud?

Answer: The points mentioned as conclusions from the PSI hearing must be clarified in order to respond to your question.

A. First, the pilot options program was designated with the specific objective of minimizing the impact of options trading on Commission resources available for other agency programs. This was achieved in primarily two ways. First, the regulatory package for options will follow existing futures regulations where appropriate. Second, the additional burden of regulating options will be shifted to the exchanges where the options regulation required deviates from futures regulation and program restrictions.

In regulating options the Commission's role will be more of an oversight function than is customary in futures regulation. Therefore, the pilot options program is not expected to have an adverse effect on other Commission programs.

B. The statement that option trading has a weak economic basis is simply not true. Option trading offers opportunities for commercial risk management which can greatly increase the flexibility of commercial trade through the price-insurance and income-generation functions which options perform. Also, one of the objectives of the pilot program is to see, by means of actual trading experience, what degree of commercial usefulness options provide.

C. To state that options trading under the pilot program is open to fraud ignores the precautions that have been taken in this program. First, brokers selling options to the public are required to be members of the exchanges on which those options are traded or members of a self-regulatory organization (SRO) approved by the Commission. Second, the exchanges must enforce the adoption of and adherence to written customer sales practice rules by their member FCMs and disclosure requirements which are more stringent than the futures regulations.

D. Based on the preceding the pilot program does not depend on a not-yet-implemented SRO for its regulation. The SRO's that have major responsibilities in the pilot program are the exchanges. Therefore, given the minimal drain on Commission resources, the important commercial use possibilites for options, and the regulatory protections contained in the pilot program, we believe the implementation of the pilot options program is well worth the cost to the Commission.

SUBCOMMITTEE RECESS

Senator **Cochran**. Until that time, the subcommittee stands in recess. Thank you.

[Whereupon, at 10:30 a.m., Tuesday, April 13, the subcommittee was recessed, to reconvene at the call of the Chair.]

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